

THE PATH TO PROSPERITY  
**A RESPONSIBLE,  
BALANCED BUDGET**



**FISCAL YEAR 2014 BUDGET RESOLUTION**

House Budget Committee  
[budget.house.gov](http://budget.house.gov)

Embargoed Until 10:00 AM ET  
On Tuesday, March 12, 2013

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## STATEMENT OF CONSTITUTIONAL AND LEGAL AUTHORITY

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Article I of the Constitution grants Congress the power to raise money for the Treasury, to pay the country's obligations, and to publish regular statements of all financial transactions.

In addition, the Congressional Budget Act of 1974 requires Congress to write a budget each year. The law instructs the President to submit a proposal for Congress's consideration by the first Monday of February. It also directs Congress to draft its own proposal in a timely manner. Both houses of Congress must agree to a budget resolution by April 15.

The budget resolution is the only legislation that views the federal government as a whole. As such, it serves many functions: It resolves conflicting judgments about our national priorities. And it reconciles divergent views of our country's future. Ultimately, the budget is more than a list of numbers. It's an expression of our governing philosophy.

This budget—for fiscal year 2014 and beyond—builds on the last two budgets passed by the House of Representatives. It recommitts our country to the principles enshrined in the Constitution: liberty, limited government, and equality under the law. And it frees the country from the crushing burden of debt that threatens our future.

Unfortunately, the President is shirking his duty. He has missed his budget deadline four times in five years. His blatant disregard for the law has upended the budget process. Today, Washington budgets by crisis. This budget restores regular order—because the people deserve an honest account of our challenges and what's needed to confront them.

The Committee on the Budget will again complete its budget on time—in recognition of the need for transparent government. And it will do so with great purpose: to provide for the orderly execution of Congress's duties and to restore the promise of this exceptional nation.

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## INTRODUCTION

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The United States faces many challenges. This year, unemployment will hover around 8 percent, according to the Congressional Budget Office.<sup>1</sup> Economic growth will remain tepid. The national debt recently eclipsed the size of our economy. Millions of families are stuck in foreclosure. Student loans are piling up. Gas prices are at historic highs. And soon, families will struggle with a new health-care bureaucracy, while medical costs further erode their paychecks.

It's no surprise, then, that most Americans think we're on the wrong track.<sup>2</sup> By living beyond our means, we're stealing from the next generation. By promising a higher standard of living today, the federal government is guaranteeing a lower standard of living tomorrow. So it's troubling to consider where this track will lead. Unless we act, by 2023, we will add another \$8.2 trillion to our national debt. That debt will weigh down our country like an anchor.

Unless we change course, we will have a debt crisis. Pressed for cash, the government will take the easy way out: It will crank up the printing presses. The final stage of this intergenerational theft will be the debasement of our currency. Government will cheat us of our just rewards. Our finances will collapse. The economy will stall. The safety net will unravel. And the most vulnerable will suffer.

But it's not too late. This budget provides an exit ramp from the current mess—and an entry ramp to a better future. Unlike the President's last budget, which never balanced, this budget achieves balance within ten years. In the next decade, it spends \$4.6 trillion less than will be provided under the current path. The fact is, we owe the American people a balanced budget. The less we owe to foreign creditors, the more of our future we will control.

And we balance the budget for an important reason: An unbalanced budget is a sign of overreach. When government does too much, it doesn't do anything well. So our budget makes room for community—for the vast middle ground between government and the person. It recognizes that people do not find happiness in grim isolation or by government fiat. They find it through friendship—through free, vibrant exchange with the people around them. They find it through achievement. They find it in their families and neighborhoods, their places of worship and youth groups. They find it in a healthy mix of self-fulfillment and belonging.

While we belong to one country, we also belong to thousands of communities—each of them rich in tradition. And these communities don't obstruct our personal growth. They encourage it. So the duty of government is not to displace these communities, but to support them. It isn't to blunt their differences or to flatten their character—to mash them all together into a dull conformity. It's to secure our individual rights and to protect that diversity.

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<sup>1</sup> Congressional Budget Office. "[The Budget and Economic Outlook: Fiscal Years 2013 to 2023](#)." February 2013.

<sup>2</sup> Rasmussen Reports. "[Right Direction or Wrong Track](#)." 6 March 2013.

We are a self-governing people. Yet, if we can't manage our own affairs, we can hardly govern a nation. It's in the assembly hall and the boardroom—in the town meeting and the state legislature—that we learn how to govern. And that's where we forge our common bonds. Yes, government is one of those bonds. But it can't unite 300 million people—not on its own. It needs our communities to tie us together.

Today, our communities—our families, in particular—face many dangers: rising health-care costs, a stagnant economy, a massive debt, an uncertain world. These dangers require a lean, dynamic government—one that can protect its people and keep its word. They also require government to respect its limits—to understand it plays a role in our lives, but not the leading one.

This budget seeks to revive our communities with an emphasis on six areas. It expands opportunity by growing our economy. It strengthens the safety net by retooling federal aid. It secures seniors' retirement by reforming entitlements. It restores fair play to the marketplace by ending cronyism. It keeps our country safe by rebuilding our military. And it ends Washington's culture of reckless spending.

None of these priorities can be met if a debt crisis hits. This budget gets government spending under control. Balancing the budget is a sensible goal—a commitment that both parties should share. And because our debt has grown with greater speed, the Committee on the Budget has tackled it with greater urgency. But our aim isn't merely a balanced ledger. It's the well-being of our people. We need government to focus on the people's priorities—not its own. And so our budget returns the federal government to its proper limits and focus.

We can overcome these challenges—and we must. It's our duty to leave the next generation a better country than the one we inherited. We know what the problem is: We have to fix our entitlements and to grow the economy. We understand that not everyone shares our view. And we respect that difference of opinion. Last year, the American people chose divided government. So this year, we have to make it work. We offer this budget in recognition of that need—and in a spirit of good will.



Paul Ryan  
Chairman of the House Budget Committee  
Member of Congress, First District of Wisconsin  
March 12, 2013

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## SUMMARY

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Washington owes the American people a responsible, balanced budget. This is a plan to balance the budget in ten years. It invites President Obama and Senate Democrats to commit to the same common-sense goal. This budget will achieve the following:

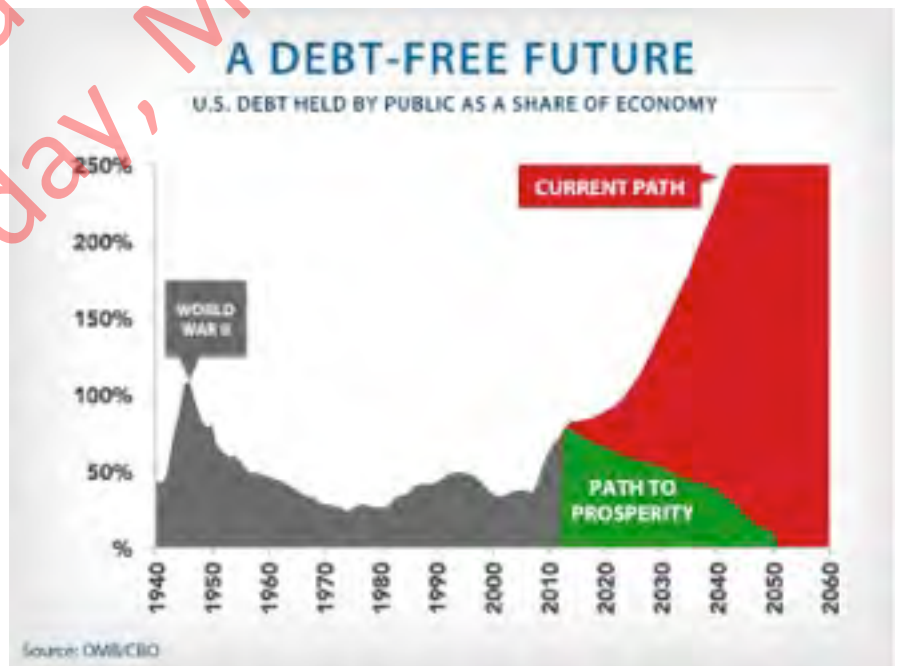
- Stop spending money we don't have by cutting wasteful spending.
- Fix our broken tax code to create jobs and increase wages.
- Protect and strengthen important priorities like Medicare and national security.
- Reform welfare programs like Medicaid so they can deliver on their promise.

### **Balance the Budget. Grow the Economy.**

The House Republican budget reduces deficits by \$4.6 trillion over the next ten years. It targets wasteful Washington spending and reforms the drivers of the debt.

This budget stops spending money we don't have. It achieves the common-sense goal of a balanced budget in ten years. A balanced budget will foster a healthier economy and help create jobs.

By tackling the debt, this budget will help grow our economy today and ensure the next generation inherits a stronger, more prosperous America.



### **The Human Scale**

Our budget will help improve the lives of American families.

- **Provide economic security for workers and parents.**
- **Ensure a secure retirement for the elderly.**
- **Expand opportunity for the young.**
- **Repair the safety net for the poor.**

## **Key Components of the House Republican Budget:**

### **Opportunity Expanded**

This budget offers a plan to expand opportunity. While not sufficient by themselves, policy reforms at the federal level can help foster an environment that promotes economic growth. This budget seeks to equip Americans with the skills to succeed in a 21<sup>st</sup>-century economy and to grow that economy through long-overdue tax reform. Both reforms work off the same principle: The American people know their needs better than bureaucrats thousands of miles away. And government has a responsibility to support their efforts.

### **A Safety Net Strengthened**

This budget applies the lessons of welfare reform to other federal aid programs. It gives states more flexibility to tailor programs to their people's needs. It gives those closest to the people better tools so they can root out waste, fraud, and abuse. Finally, it empowers recipients to get off the aid rolls and back on the payroll. By enlisting states in the fight against poverty, this budget builds a partnership between the federal government and our communities.

### **Retirement Secured**

This budget protects and strengthens Medicare for current and future generations. It also requires the President and Congress to work together to forge a solution for Social Security. This budget recognizes that the federal government must keep its word to current and future seniors. And to do that, it must reform these programs.

### **Fairness Restored**

The administration's uncontrolled, wasteful spending in combination with an overzealous regulatory agenda has weakened an anemic economy and created barriers to job creation, especially for small businesses. To restore fairness—and vitality—to our economy, this budget ends cronyism; eliminates waste, fraud, and abuse; and returns the federal government to its proper sphere of activity.

### **A Nation Protected**

The first job of the federal government is to secure the safety of its citizens from threats at home and abroad. Whether defeating the terrorists who attacked this country on September 11, 2001, deterring the proliferation of weapons of mass destruction, or battling insurgents who would harbor terrorist networks that threaten Americans' lives, the men and women of the United States' military have performed superbly. This budget provides the best equipment, training, and compensation for their continued success. It also keeps faith with the veterans who have served and protected the nation.

### **A Budget Process Reformed**

When it comes to fixing the broken budget process, the choice facing Americans could not be clearer: The President and his party's leaders have failed to take their budgetary responsibilities seriously. By contrast, the Republican majority in the House has met its legal and moral obligation by passing a bold budget that tackles America's most pressing fiscal challenges. Last Congress, the House Budget Committee authored and advanced several statutory reforms to bring more accountability to the federal budget process. This budget continues in the spirit of those proposed reforms, which the Committee will again pursue after this resolution has been adopted by the House.



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## GOVERNMENT SPENDING

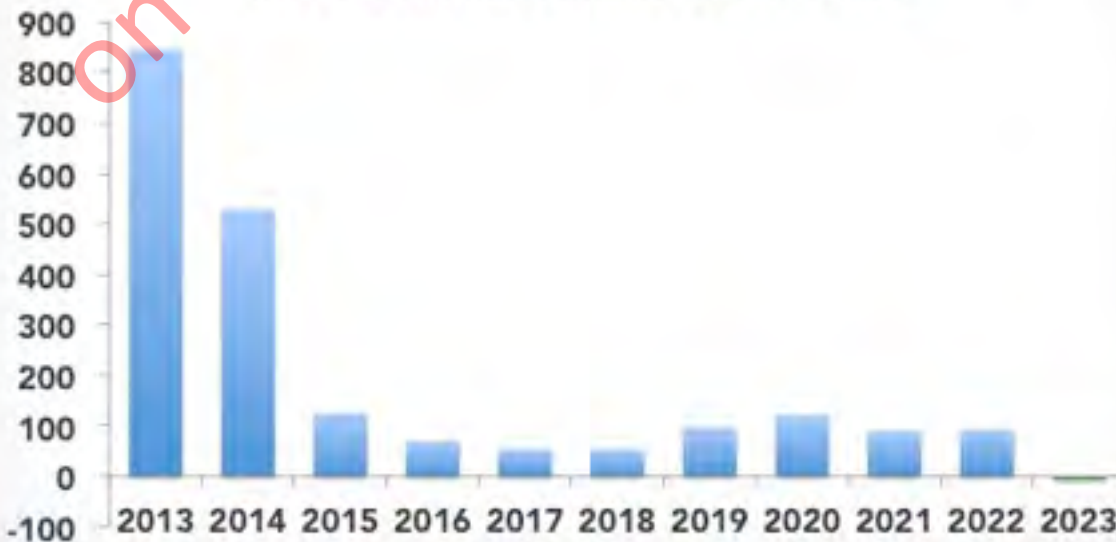
SPENDING AS A PERCENTAGE OF GDP, 2013-2023



Source: CBO/HBC

## A BALANCED BUDGET

DEFICIT IN BILLIONS OF DOLLARS, 2013-2023



Source: CBO/HBC

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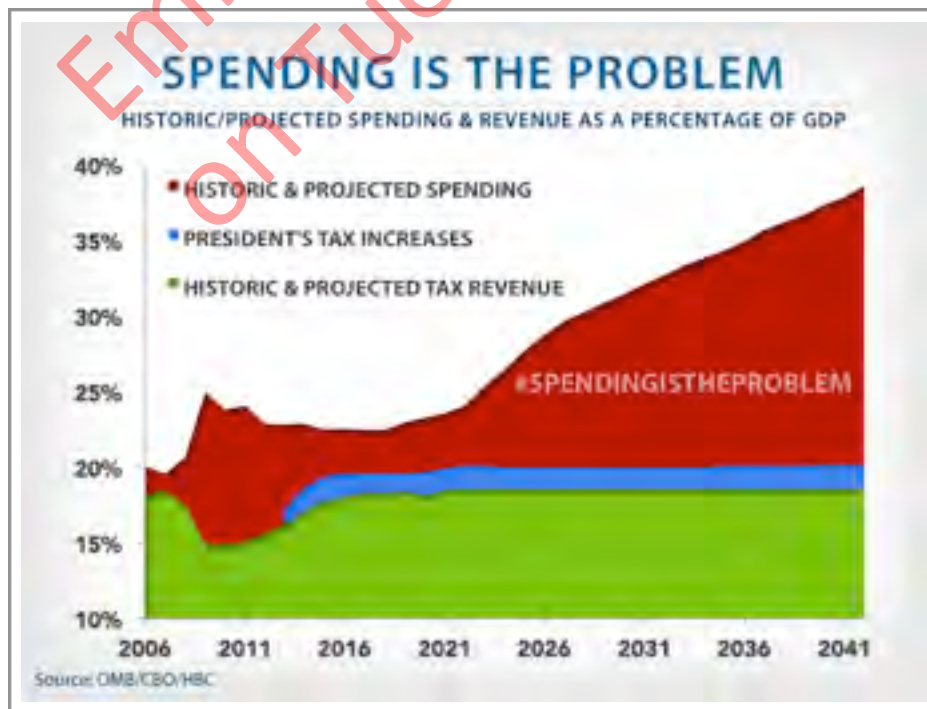
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**THE DEBT CRISIS AHEAD**  
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## THE DEBT CRISIS AHEAD

Five years ago, we had a financial crisis. It flared up suddenly, though the tinder had been building up over time. And the damage was severe. Four million families lost their homes.<sup>3</sup> Nine million people lost their jobs.<sup>4</sup> In some ways, Washington helped put out the flames. But much of what the government tried—more regulations, more spending—didn't work. In fact, it may have delayed the recovery.

Today, we face a crisis of another sort—one more predictable than the last and more dangerous than ever. We face the threat of a debt crisis.



Our national debt is growing faster than our economy. In other words, our obligations are growing faster than our ability to pay them. Debt held by the public is 73 percent of our economy. By 2023, the Congressional Budget Office [CBO] expects it to hit 77 percent. In fact, under an alternative scenario that assumes plausible policy choices, it will hit 87 percent by 2023. And total national debt is already bigger than our economy.

<sup>3</sup> Steele, Tara. "Nearly Four Million Foreclosures Completed since Housing Crash." *AGBeat*. 3 December 2012.

<sup>4</sup> Goodman, Christopher J., and Steven M. Mance. "Employment Loss and the 2007–09 Recession: An Overview." *Monthly Labor Review*. April 2011.

Federal spending is the problem. In 2023, the CBO expects revenue to be nearly double last year's total. Yet they also expect the deficit to be nearly \$1 trillion. As 80 million baby boomers retire and the country gets older, our entitlement programs will start to burst at the seams. In the next decade, Social Security will grow at an annual average of 5.8 percent. Medicare will grow at 6.2 percent. And Medicaid—thanks in part to its expansion under the health-care law—will grow at an astounding 9.9 percent. All of these programs are growing substantially faster than the economy, which CBO expects to grow in nominal terms at only 4.8 percent on average.

Without reform, entitlement programs will overwhelm all other items in the federal budget. And the resulting national debt will overwhelm our economy. At some point, lenders might question our ability to pay our obligations. They might demand higher interest rates. If they did, we would have a debt crisis, and the pain would be intense. This budget offers a way out of this fix. And it does so with an appreciation of what a debt crisis would mean to the country—and the average person.



### Impact on the Country

Today, we're enjoying historically low interest rates because the Federal Reserve is buying large amounts of our debt, and investors have retreated to U.S. securities amid global turmoil. But our growing obligations may shake their confidence. In return, they might demand compensation for that higher risk. Foreigners own almost half of our publicly held debt. So we're particularly vulnerable to a sudden shift in foreign-investor sentiment. In addition, over one-third of our total marketable debt will mature over the next 24 months. So we will have to roll over much of our debt in the next two years—when interest rates might be higher.

When interest rates rose, debt payments would crowd out other parts of the budget. Today, if interest rates returned to the levels that prevailed before the Great Recession, interest payments would be \$420 billion higher in 2014—and \$700 billion higher in 2020.<sup>5</sup> At some point, rates would reach prohibitive highs. Unable to borrow more money, the federal government would have to resort to austerity: big tax hikes and big spending cuts. To put that into perspective, Bill Gross, bond-fund manager at PIMCO, estimates that we would need to cut spending or raise taxes by 11 percent of GDP (or \$1.6 trillion) over the next five to ten years to keep our debt below a crisis level.

If we waited until a debt crisis broke out, the pain would be worse. Treasury bonds are the lynchpin of global debt markets. Virtually all financial institutions consider them safe, liquid assets. If interest rates rose, bond prices would drop, tearing up these firms' balance sheets. Len Burman, former director of the Tax Policy Center, warns that such an event would be "disastrous."<sup>6</sup> The federal government would be unable to borrow money to support private enterprise, as it did during the financial crisis. As a result, he estimates that the economy would shrink by 25 to 30 percent—a contraction rivaling the Great Depression in size.<sup>7</sup> He writes that "it could easily take the nation a generation or longer to recover from [such a] disaster."<sup>8</sup>

### **Impact on the Individual**

The effects of a debt crisis would cascade through the economy—all the way down to the individual. Nearly all consumer-borrowing rates are linked to long-term Treasury rates. As Treasury rates increased, rates on mortgages, credit cards, and car loans would follow.

Roughly half of all household debt consists of variable-interest-rate loans, so a spike in Treasury rates would lead to higher borrowing costs for families. One estimate suggests that an interest-rate increase of just one percentage point would increase annual interest payments for the average family by \$400.<sup>9</sup> In fact, the added costs could easily exceed \$1,000 per year. To a new homebuyer, a one-percentage-point increase in mortgage rates would add as much as 19 percent to the total cost of their mortgage.<sup>10</sup>



<sup>5</sup> Lindsey, Lawrence. "The Deficit Is Worse Than We Think." *Wall Street Journal*. 28 June 2011.

<sup>6</sup> Burman, Len et al. "Catastrophic Budget Failure." Presented at Joint TPC-USC Conference. 15 January 2010.

<sup>7</sup> Ibid.

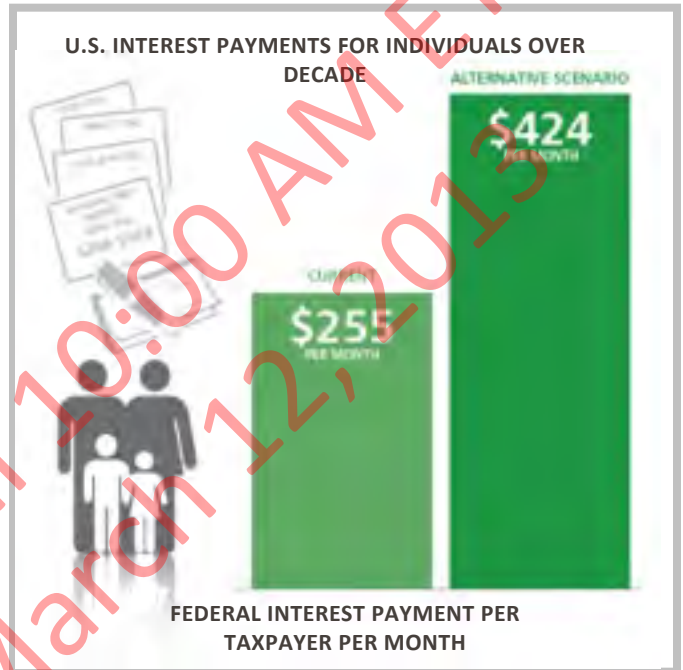
<sup>8</sup> Ibid.

<sup>9</sup> Center for American Progress. "Payment Due: The Effects of Higher Interest Rates on Consumers and the Economy." 20 September 2004.

<sup>10</sup> Schwartz, Nelson. "Interest Rates Have Nowhere to Go but Up." *New York Times*. 10 April 2010.

A debt crisis would not only mean higher interest payments. It would also cost jobs and slow wage growth. The corporate sector has roughly \$11.5 trillion in loans that will mature over the next five years.<sup>11</sup> A sharp rise in interest rates would force businesses to curb investment. They would cut the amount they spent on equipment and plant development—which workers need to earn higher wages. Over time, lower investment would depress wage growth, as productivity slowed.

A debt crisis would also mean higher taxes. If current federal interest payments were allotted to taxpayers, they would equal about \$255 per month, according to Deloitte LLP. Under an alternative scenario—in which growth is slightly lower than expected, interest rates are slightly higher than expected, and current tax and spending policies are extended—that amount is expected to jump to \$424 per month for each taxpayer over the next decade.<sup>12</sup>



Finally, a debt crisis would hurt the most vulnerable worst of all. During the financial crisis, the federal government was able to borrow money to provide assistance to these families. In a debt crisis, however, the government would be unable to provide that assistance.

**STOCKTON,  
CALIFORNIA  
HAD TO  
LAY OFF  
25% OF ITS  
POLICE  
FORCE**

We don't need to look far for examples of a debt crisis in action. There are examples in the United States, where municipalities have gone bankrupt and been unable to provide basic services. In Central Falls, Rhode Island, for instance, retirees' pensions have been slashed by up to 55 percent. In Stockton, California, the city has laid off 25 percent of its police force in the face of increasing pension costs.

Millions of Americans—the elderly, the poor—depend on assistance from the federal government. If we had a debt crisis, we wouldn't be able to keep our promises to these families. We can't let that happen. We still have time to avert this crisis, but we need to get serious about spending—now. That's why this budget achieves balance within the next ten years. It protects and strengthens the safety net and our entitlement programs, so we can keep our word to the most vulnerable. And most importantly, it expands opportunity, because the strongest safety net is a vibrant economy.

There is no reason why we can't succeed. If Congress and the President collaborate in good will, we can leave the country with a far brighter future.

<sup>11</sup> Deloitte LLP. "The Untold Story of America's Debt." June 2012.

<sup>12</sup> Ibid.



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**OPPORTUNITY EXPANDED**  
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## OPPORTUNITY EXPANDED

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The central promise of American life is upward mobility. It's the opportunity to rise. It's a testament to this country's character that upward mobility has long been a fact of life. Today, four-fifths of Americans have higher incomes than their parents had at the same age. But not everyone has taken part in the expansion. Two-fifths of the children born in the bottom 20 percent of earners will never know anything better.<sup>13</sup> For millions of people, the American Dream is seemingly out of reach. We still have much to do if we want to guarantee equality of opportunity to every person in this country.

No economic system in the history of mankind has done more to lift up the poor than America's commitment to free enterprise. If the American Idea of earning success through work and enterprise is to endure through the 21st century, policymakers must urgently enact reforms to get Washington's fiscal house in order, spur job creation, and promote sustained economic growth.

Above all, the role of policymakers must be to lift government-imposed barriers to stronger communities and flourishing lives. Fiscal responsibility and economic opportunity are but means to a more critical end: the rebuilding of broken communities and the empowerment of families and citizens. The ever-expansive activism of the federal government drains the vitality and displaces the primacy of the bedrock institutions that define America.

In pursuit of that goal, this budget offers a plan to expand opportunity. While not sufficient by themselves, policy reforms at the federal level can help foster an environment that expands opportunity. This budget seeks to equip Americans with the skills to succeed in a 21<sup>st</sup>-century economy and to grow that economy through long-overdue tax reform. Both reforms work off the same principle: The American people know their needs better than bureaucrats thousands of miles away. But they need government to support their efforts.

*Higher education and job-training in brief:*

- **Encourage policies that promote innovation.**
- **Adopt a sustainable maximum-award level for Pell.**
- **Ensure aid for higher education is targeted to the truly needy.**
- **Update accounting rules to reflect the true cost of federal loan programs.**
- **Eliminate ineffective and duplicative federal education programs.**
- **Consolidate job-training programs, based on reforms in the SKILLS Act, and provide for a career-scholarship fund.**

*Tax reform in brief:*

- **Simplify the tax code to make it fairer to American families and businesses.**
- **Reduce the amount of time and resources necessary to comply with tax laws.**
- **Substantially lower tax rates for individuals, with a goal of achieving a top individual rate of 25 percent.**

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<sup>13</sup> Pew Charitable Trusts. "[Pursuing the American Dream: Economic Mobility across Generations.](#)" July 2012.

- **Consolidate the current seven individual-income-tax brackets into two brackets with a first bracket of 10 percent.**
- **Repeal the Alternative Minimum Tax.**
- **Reduce the corporate tax rate to 25 percent.**
- **Transition the tax code to a more competitive system of international taxation.**

### **Higher Education and Job-Training**

To keep pace with a technologically advanced and increasingly interconnected world, workers must develop new skills. One estimate says 90 percent of jobs in a knowledge-based economy will require postsecondary education.<sup>14</sup> Higher education and job-training are crucial to this effort. But the federal government is hindering workforce development with outmoded aid programs. Instead of increasing upward mobility, these programs are saddling workers with untenable amounts of debt.

#### *Challenge*

Tuition inflation is running rampant. For the past 30 years, college tuition has risen at twice the rate of inflation. In 2012, the average student-loan debt was \$27,253—a 58 percent increase in seven years. The total amount of student-loan debt now exceeds that of credit-card debt. Our students are graduating with such large debts—and having such difficulty finding jobs—that they're unable to make their payments. Default rates on student loans shot up from 12.4 percent in 2005 to 15.1 percent in 2010.<sup>15</sup>

The problem breaks down into two categories: First, current federal-aid structures are exacerbating a crisis in tuition inflation, plunging students and their families into unaffordable levels of debt or foreclosing the possibility of any higher education at all. Then, these young adults are graduating with enormous loan repayments and having difficulty finding jobs in our low-growth economic environment. Instead of solving the problem, schools are deflecting the mounting criticism by citing the rising cost of health care and employee benefits, the need to compete for students by offering nicer facilities, and reductions in state budgets and endowments as a result of ongoing economic stagnation. While there are many contributing factors, there is a core structural challenge in higher-education financing, driven primarily by the federal government's policies. Many economists, including Ohio University's Richard Vedder, argue that the structure of the federal government's aid programs don't simply chase higher tuition costs, but are in fact a key driver of those costs.<sup>16</sup>

The federal government's largest higher-education-financing program is the Pell Grant program. It is on an unsustainable path, a fact acknowledged by the President's own fiscal year 2013 budget.<sup>17</sup>

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<sup>14</sup> Commission on Higher Education. "[A Test of Leadership: Charting the Future of U.S. Higher Education](#)." September 2006.

<sup>15</sup> Touryalai, Halah. "[More Evidence on the Student Debt Crisis](#)." *Forbes*. 29 January 2013.

<sup>16</sup> Vedder, Richard. [Testimony before the House Committee on Education and the Workforce](#). 19 April 2005.

<sup>17</sup> [Fiscal Year 2013 Budget of the U.S. Government](#).

The College Cost Reduction and Access Act of 2007 [CCRAA], the Higher Education Opportunity Act of 2008 [HEOA], the “stimulus” bill, and the Student Aid and Fiscal Responsibility Act of 2010 [SAFRA] all expanded the Pell Grant program, creating larger liabilities but without the means to fully cover the new costs. This, along with a dramatic rise in the number of eligible students due to the recession, has caused program costs to more than double since 2008, from \$16.1 billion in 2008 to an estimated \$34.2 billion in fiscal year 2014.<sup>18</sup> Moreover, the program is beginning to increasingly rely on mandatory funding to solve its discretionary shortfalls. For instance, the Department of Education warned in fiscal year 2012 that without changes to reduce program costs, Pell Grants would have a shortfall of \$20.4 billion.<sup>19</sup> And based on current CBO estimates, the program will again face a shortfall in fiscal year 2015.<sup>20</sup>

Instead of making necessary, long-term reforms, previous Congresses again resorted to short-term funding patches—a temporary answer that will not prevent another severe funding cliff for the program in the future. The President’s past budgets have failed to make the tough choices about the future of Pell Grants. For instance, his fiscal year 2013 budget increased the maximum Pell award, but only provided funding for that level of award through the 2014–2015 academic year. These decisions put the program at greater risk of ultimately being unable to fulfill its promises to students.

The federal government’s incompetence extends to job-training. In January 2011, the Government Accountability Office issued a report that found 47 overlapping federal job-training programs spent approximately \$18 billion in 2009.<sup>21</sup> Since GAO issued that report, the Education and Workforce Committee has conducted extensive work in this area and added to the list, identifying more than 50 duplicative and overlapping programs.<sup>22</sup> Many of these job-training programs are uncoordinated, difficult to access, and not accountable for results. In addition, Senators Tom Coburn and John McCain have highlighted numerous examples of waste, fraud, and abuse in these programs.<sup>23</sup>

#### *Solutions*

- **Encourage policies that promote innovation.**

Federal intervention in higher education should increasingly be focused not solely on financial aid, but on policies that maximize innovation and ensure a robust menu of institutional options from which students and their families can choose. Such policies should include reexamining the data made available to students to make certain they are armed with information that will assist them in making their postsecondary decisions. Additionally, the federal government should act to remove regulatory barriers in higher education that restrict flexibility and innovative teaching, particularly as it relates to non-traditional models such as online coursework.

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<sup>18</sup> Congressional Budget Office. [February 2013 Baseline Projections for the Pell Grant Program](#).

<sup>19</sup> Department of Education. [Student Financial Assistance Fiscal Year 2012 Budget Request](#).

<sup>20</sup> Delisle, Jason. “[New Pell Grant Estimates Buy Time, Long-Term Fix Still Needed](#).” *EdMoney*. 7 February 2013.

<sup>21</sup> Government Accountability Office. “[Multiple Employment and Training Programs: Providing Information on Colocating Services and Consolidating Administrative Structures Could Promote Efficiencies](#).” January 2011.

<sup>22</sup> [Opening Statement of House Education and Workforce Chairman Kline](#). 6 March 2013.

<sup>23</sup> Coburn, Tom. [Help Wanted: How Federal Job Training Programs Are Failing Workers](#). February 2011.

- **Adopt a sustainable maximum-award level for Pell.**

The Department of Education attributed 25 percent of recent program growth to the \$619 increase in the maximum award enacted in the stimulus bill that took effect in the 2009–10 academic year.<sup>24</sup> To get program costs back to a sustainable level, the budget recommends maintaining the maximum award for the 2012–2013 award year of \$5,645 in each year of the budget window. This award would be fully funded through discretionary spending.

- **Ensure aid for higher education is targeted to the truly needy.**

The Department of Education attributed 14 percent of program growth between 2008 and 2011 to recent legislative expansions to the needs-analysis formula.<sup>25</sup> The biggest cost drivers come from changes made in the College Cost Reduction and Access Act of 2007 [CCRAA]. For instance, this law increased the amount of money students and their families could shield from the needs-analysis calculation, making it more difficult to ascertain how much families could be expected to contribute to the cost of their student's education. This and other expansions in CCRAA are accelerating the program's fiscal problems and jeopardizing its ability to make good on its commitments to families with the greatest need. To ensure limited education resources are directed at those who are truly needy, these expansions should be returned to pre-CCRAA levels.

- **Update accounting rules to reflect the true cost of federal-loan programs.**

Budget gimmicks have masked the cost of the federal student-loan program for decades. According to outdated scoring rules, these extremely risky loans are accounted for as profit-making investments, encouraging more loan expansion without regard for their impact on tuition inflation. This problem was exacerbated in 2010, when the federal government effectively nationalized student lending.<sup>26</sup> To adequately account for market risk—and to discourage even riskier lending—this budget authorizes the use of fair-value accounting for any legislation dealing with federal loan and loan-guarantee programs. Such a method would more fully account for the cost of the risk to the taxpayer of the direct-loan program.

- **Eliminate ineffective and duplicative federal education programs.**

The current structure for K–12 programs at the Department of Education is fragmented and ineffective. Moreover, many programs are duplicative and poorly targeted to students with the greatest needs. This budget calls for reorganization and streamlining of K–12 programs and anticipates major reforms to the Elementary and Secondary Education Act [ESEA], which was last reauthorized as part of the No Child Left Behind Act [NCLB]. The budget also recommends that the committees of jurisdiction terminate and reduce programs that are failing to improve student achievement and address the duplication among the 82 programs that are designed to improve teacher quality.<sup>27</sup>

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<sup>24</sup> Department of Education. [Student Financial Assistance Fiscal Year 2012 Budget Request](#).

<sup>25</sup> Department of Education. [Student Financial Assistance Fiscal Year 2012 Budget Request](#).

<sup>26</sup> "That Other Government Takeover." *Wall Street Journal*. 8 March 2010.

<sup>27</sup> GAO. "Teacher Quality: Proliferation of Programs Complicates Federal Efforts to Invest Dollars Effectively." March 2011.

- **Consolidate job-training programs, based on reforms in the SKILLS Act, and provide for a career-scholarship fund.**

This budget builds on work being done by the Education and Workforce Committee under the leadership of Chairman John Kline of Minnesota, especially the recent SKILLS Act introduced by Representative Virginia Foxx of North Carolina. It improves accountability by calling for the consolidation of duplicative federal job-training programs into more targeted career-scholarship programs. This budget will also improve these programs' accountability by tracking the type of training provided, the cost per trainee, employment after training, and whether the trainee secures a job in his or her preferred field. A streamlined approach with increased oversight and accountability will not only provide administrative savings, but improve access, choice, and flexibility to enable workers and job-seekers to respond quickly and effectively to whatever specific career challenges they face. Moreover, this budget adopts a proposal from President Obama's fiscal year 2013 budget to close chronically low-performing Job Corps centers. Such a reform will allow those funds to be better invested in centers with proven track records.

### **Tax Reform**<sup>28</sup>

#### *Challenge*

America has an economic problem, in large part due to our outdated, broken tax code. While the vast majority of our foreign competitors have moved aggressively to lower corporate tax rates and update their international-tax systems, the United States imposes the highest combined federal-state corporate tax rate in the industrialized world and relies on an outdated international-tax regime designed more than 50 years ago, when the United States faced virtually no global competition. Furthermore, the top U.S. tax rate on small-business income is 44.6 percent, the top tax rate on individuals' wages and salaries is 44 percent, and the total tax on investment income (capital gains and dividends) in the United States is 55 percent.

American families and small businesses must navigate a maze of different statutory tax rates, hidden rates, confusing deductions, credits, limitations, phase-outs, and the Alternative Minimum Tax. The trifecta of (1) maddening complexity, (2) high tax rates on business income, and (3) the prevalence of double taxation of capital and investment, all combine to suppress innovation, job creation, and economic growth.

American families and businesses spend over \$160 billion and 6 billion hours every year trying to figure out their taxes. Roughly 90 percent of Americans are forced to pay for commercial tax-preparation software or hire a tax professional just to file their taxes. Even after all that, average taxpayers are left to wonder whether someone with the resources to hire a better accountant managed to get a "better deal" out of the tax system.

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<sup>28</sup> The tax-reform framework outlined in this budget reflects the views of the Republican members of the House Ways and Means Committee, led by Chairman Dave Camp. As detailed in a letter sent to House Budget Committee Chairman Paul Ryan, their views can be found online at: <http://budget.house.gov/uploadedfiles/fy14budgetletterwm.pdf>

Furthermore, American corporations engage in elaborate tax planning because the current tax code puts them at a competitive disadvantage compared to their foreign competitors. Here too the tax code is unfair, as some companies are able to use arcane and complex provisions of the tax code to reduce their tax burden compared to their competitors. Companies engage in complex transactions purely to reduce their tax burden even when these schemes divert resources from more productive investments.

#### *Solutions*

- **Simplify the tax code to make it fairer to American families and businesses.**
- **Reduce the amount of time and resources necessary to comply with tax laws.**
- **Substantially lower tax rates for individuals, with a goal of achieving a top individual rate of 25 percent.**
- **Consolidate the current seven individual-income-tax brackets into two brackets with a first bracket of 10 percent.**
- **Repeal the Alternative Minimum Tax.**
- **Reduce the corporate tax rate to 25 percent.**
- **Transition the tax code to a more competitive system of international taxation.**

This budget accommodates the forthcoming work by House Ways and Means Committee Chairman Dave Camp of Michigan. It provides for floor consideration of legislation providing for comprehensive reform of the tax code.

In 1981, President Ronald Reagan inherited a stagnant economy and a tax code that featured 16 brackets, with a top rate of 70 percent. When he left office in 1989, the tax code had been simplified down to just three brackets, with a top rate of 28 percent. President Reagan's bipartisan tax reforms proved to be a cornerstone of the unprecedented economic boom that occurred in the decade during his presidency and continued in the decade that followed.

It is time to reclaim the Reagan legacy of enacting fundamental tax reform in an era of divided government. By making the tax code simpler and fairer, we can begin to regain the trust of the American people that Washington can and is working for them. By making the tax code more conducive to innovation, investment, and sustained job creation, we can safeguard the American Dream for generations to come.



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# SAFETY NET STRENGTHENED

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## SAFETY NET STRENGTHENED

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For years, the federal government has been encroaching on the institutions of civil society. A distant bureaucracy has been sapping their energy and assuming their role—when it should have been supporting them. Now, families are suffering the consequences. Government spends roughly \$1 trillion on anti-poverty programs.<sup>29</sup> Yet poverty rates are the highest in a generation. Over 46 million Americans live below the poverty line.<sup>30</sup> To keep our commitment to those in need—especially in health care and nutrition programs—the federal government must take a dramatically different approach from the failed status quo.

Empowerment is a powerful alternative to dependency, and recent history offers a guide to policymakers seeking to repair the safety net. Bipartisan efforts in the late 1990s transformed cash welfare by encouraging work, limiting the duration of benefits, and giving states more control over the money being spent. Opponents of these policy changes argued that welfare reform would lead to large increases in poverty and despair.

Instead, the opposite occurred. The Temporary Assistance for Needy Families [TANF] reforms cut welfare caseloads in half as poverty rates declined. Child poverty in single-female-headed households fell from 55 to 39 percent by 2001, which was the largest ten-year decline in poverty among such children since the 1960s. Although this number has increased because of the recession, the non-partisan Congressional Research Service says that “progress appears to have been largely sustained in both reducing welfare dependency and poverty among children in female-headed families, in spite of the recent recession.”<sup>31</sup>

These reforms worked because the best welfare program is temporary and ends with a job and a stable, independent life for the beneficiary. At the federal level, the successful welfare-reform movement of the 1990s was narrowly focused on cash welfare payments. Based on the lessons learned from welfare reform, now it is time to implement similar reforms across other areas of the safety net, especially Medicaid (medical care for the poor) and the Supplemental Nutrition Assistance Program (SNAP, also known as the food stamps).

This budget applies the lessons of welfare reform to federal-aid programs. It gives states more flexibility to tailor programs to their people’s needs. It gives those closest to the people better tools so they can root out waste, fraud, and abuse. Finally, it empowers recipients to get off the aid rolls and back on the payroll. By enlisting states in the fight against poverty, this budget builds a partnership between the federal government and our communities.

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<sup>29</sup> Congressional Research Service. “Spending for Federal Benefits and Services for People with Low Income, FY2008–FY2011.” 16 October 2012.

<sup>30</sup> U.S. Census Bureau. [About Poverty: Highlights](#). Accessed 9 March 2013.

<sup>31</sup> Gabe, Thomas. “[Welfare, Work, and Poverty Status of Female-Headed Families with Children: 1987–2011](#).” Congressional Research Service. 9 January 2013.

### Health care in brief

- **Provide states flexibility on Medicaid.**
- **Repeal the health-care law's expansion of Medicaid.**
- **Repeal the health-care law's exchange subsidies.**

### Welfare reform in brief

- **Allow states to customize SNAP to address the needs unique to their citizens.**
- **Address barriers to upward mobility.**
- **Reinstitute welfare's work requirements.**

## Medicaid and Welfare Reform

### Challenge

Medicaid is meant to offer affordable health care to those in need. Unfortunately, the program itself is bursting at the seams. At its inception in 1966, the program cost \$900 million. In 2012, it cost \$432 billion. And by 2023, the program's actuary expects costs to reach nearly \$800 billion.<sup>32</sup> Not surprisingly, the program is a huge strain on state budgets. What's more, much of this spending is wasteful, because the federal bureaucracy can't provide adequate oversight. Medicaid's improper payment rate is 8.1 percent—one of the ten highest among government programs. In 2011, Medicaid made \$21.9 billion in improper payments.<sup>33</sup>

The main problem with the program is structural. On average, the federal government pays 57 cents of every dollar spent on Medicaid.<sup>34</sup> As a result, this set-up tempts states to expand coverage during boom times—because they pay less than half the cost. On the flip side—during hard times—states are reluctant to cut a dollar's worth of coverage because it saves them only 43 cents.

Governors have asked the federal government to give them more flexibility in offering the program.<sup>35</sup> Federal mandates prevent states from developing innovative coverage options. Pressed for money, states often resort to cutting payments to providers, forcing many doctors to turn away Medicaid patients. As a result, patients' health suffers. For example, Medicaid patients are more likely to die after coronary-artery-bypass surgery, less likely to get standard care for blocked arteries, and more

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<sup>32</sup> Truffer, Christopher et al. "[2012 Actuarial Report on the Financial Outlook for Medicaid](#)." March 2012.

<sup>33</sup> GAO. "[Improper Payments: Remaining Challenges and Strategies for Governmentwide Reduction Efforts](#)." 28 March 2012.

<sup>34</sup> Department of Health and Human Services. "[Financing and Reimbursement](#)." Medicaid.gov.

<sup>35</sup> Republican Governors Public Policy Committee: Health Care Task Force. "[A New Medicaid: A Flexible, Innovative and Accountable Future](#)." 30 August 2011.

likely to die from cancer than those with other coverage options.<sup>36</sup> Meanwhile, those doctors who continue to see Medicaid patients end up shifting their extra costs onto other patients.<sup>37</sup>

The health-care law only exacerbates this problem. It increases eligibility to those families making 133 percent of the poverty line. And it requires states to expand eligibility for the program if they want full funding for the costs of new beneficiaries. In the end, it puts more people into a broken system. Medicaid can no longer keep its promise to provide health care to our most vulnerable. Instead, it is erecting a two-class system that stigmatizes Medicaid enrollees and overwhelms state budgets.

SNAP provides food aid to low-income Americans. But it too is facing a budget crunch. In 2003, the program cost \$25 billion. Today, it costs over \$80 billion, representing an increase of 12.5 percent a year since 2003. Much of the increase is due to the recession, but not all of it. Enrollment has grown from 17 million recipients in 2001 to over 46 million today. The Department of Agriculture has observed that “the historical relationship between unemployment and SNAP caseloads diverged in the middle of the decade. . . . As the unemployment rate fell 1.4 percentage points between 2003 and 2007, SNAP caseloads increased by 22 percent.”<sup>38</sup>

Like Medicaid, SNAP suffers from a flawed structure. States receive more money if they enroll more people in the program—so their incentive is to get people onto the rolls. They have little incentive to help people get off the rolls and find work. In fact, these programs make it harder to become independent.

These programs also have little incentive to root out waste, fraud, and abuse. In Michigan, two lottery winners received SNAP benefits.<sup>39</sup> In New York, city employees created around 1,500 fake SNAP cards—and stole \$8 million in benefits.<sup>40</sup> House Oversight Committee Chairman Darrell Issa has uncovered dozens of other examples, such as recipients trading food stamps for cigarettes and alcohol.<sup>41</sup>

To remain viable and to deliver on its important mission, SNAP must end this abuse. It must encourage states to reduce fraud. In so doing, it can help feed the hungry—without lining the pockets of those who abuse the system.

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<sup>36</sup> Gottlieb, Scott. “[Medicaid Is Worse Than No Coverage at All.](#)” *Wall Street Journal*. 10 March 2011.

<sup>37</sup> Rapp, Doug. “[Low Medicare, Medicaid Pay Rates Impact Private Costs.](#)” *American Medical News*. 5 January 2009.

<sup>38</sup> Andrews, Margaret and David Smallwood. “[What’s Behind the Rise in SNAP Participation.](#)” *Amber Waves*. March 2012.

<sup>39</sup> White, Ed. “[Lottery winner. Food stamps. In Michigan. Again.](#)” *Associated Press*. 9 March 2012.

<sup>40</sup> Moynihan, Colin. “[Four Charged With Stealing \\$8 Million in Food Stamp Scam.](#)” *New York Times*. 8 December 2010.

<sup>41</sup> [Letter from Darrell Issa to Agriculture Secretary Tom Vilsack](#). 6 February 2012.

## Implicit marginal tax rates

On a broader level, the welfare system as a whole is dysfunctional. In the 20<sup>th</sup> century, the federal government addressed low-income families' needs on a case-by-case basis: welfare, food stamps, children's health insurance. Because the government created these programs separately, it didn't coordinate their efforts. And over the years, policymakers have sought to rein in costs by phasing out benefits as families move up the income ladder. As a result, recipients face what are called implicit marginal tax rates. As their incomes rise, they face higher tax burdens and lower benefits. The confluence of government policies affecting lower-income individuals can often create a powerful disincentive to get ahead.

In testimony before the House Subcommittee on Human Resources last year, Gene Steuerle of the Urban Institute illustrated this problem with a hypothetical example. Take a single parent with two children living in Colorado. If that parent's income rises from \$10,000 to \$40,000, how much of the additional \$30,000 does the family keep? How much of it is lost to taxes and benefit cuts? Assuming the family is enrolled in non-wait-listed programs like SNAP, Medicaid, and SCHIP, Steuerle writes, "the average effective marginal tax rate could be 55 percent." And "enrolling the family in additional wait-listed programs, like housing assistance and [Temporary Assistance for Needy Families], ratchets the rate up above 80 percent." Steuerle asks "why as a society we worry about 40 percent tax rates on the rich if 50 or 100 percent tax rates on the poor have little or no effect. Are the poor really that different?"

The CBO has provided information on the range of marginal tax rates that individuals face. Lower-income individuals can face a marginal tax rate of up to 95 percent, not including phase-outs from Medicaid.<sup>42</sup>



While this is not a new problem, recent changes in federal policies exacerbate the trend. The Affordable Care Act, with exchange subsidies and Medicaid expansions, accelerates the trend of ever-increasing marginal tax rates on lower-income individuals.

<sup>42</sup> CBO. "Effective Marginal Tax Rates for Low- and Moderate-Income Workers." 15 November 2012.

## *Upward mobility*

Beyond the urgent need to lift the crushing burden of debt and advance pro-growth reforms that spur sustained job creation, policymakers must reform public-assistance programs to be more responsive, sustainable, and empowering to their beneficiaries. Government can play a positive role with policies that help the less fortunate get back on their feet and offer low-income Americans the opportunity to gain control over their lives.

The key to the successful welfare reform of the late 1990s was Congress's decision to focus on the individual. It granted states the ability to design their own systems. Congress should grant them the same flexibility with regard to Medicaid.

Above all, the role of policymakers must be to lift government-imposed barriers to stronger communities and flourishing lives. Fiscal responsibility and economic opportunity are but means to a more critical end: the rebuilding of broken communities and the empowerment of families and citizens. The ever-expansive activism of the federal government drains the vitality and displaces the primacy of the bedrock institutions that define America.

## *Solutions*

- **Provide states flexibility on Medicaid.**

One way to secure the Medicaid benefit is by converting the federal share of Medicaid spending into an allotment tailored to meet each state's needs, indexed for inflation and population growth. Such a reform would end the misguided one-size-fits-all approach that has tied the hands of state governments. States would no longer be shackled by federally determined program requirements and enrollment criteria. Instead, each state would have the freedom and flexibility to tailor a Medicaid program that fit the needs of its population.

The budget resolution proposes to transform Medicaid from an open-ended entitlement into a block-granted program like State Children's Health Insurance Program. These programs would be unified under the proposal and grown together for population growth and inflation.

This reform also would improve the health-care safety net for low-income Americans by giving states the ability to offer their Medicaid populations more options and better access to care. Medicaid recipients, like all other Americans, deserve to choose their own doctors and make their own health-care decisions, instead of having Washington make those decisions for them.

There are numerous examples across the country where states have used the existing, but limited flexibility of Medicaid's waiver program to introduce innovative reforms that produced cost savings, quality improvements, and beneficiary satisfaction. The state of Indiana implemented such reforms through the Healthy Indiana Plan, a patient-centered system that provided health coverage to uninsured residents who didn't qualify for Medicaid. Enrollees in this program had access to benefits such as physician services, prescription drugs, both patient and outpatient hospital care, and disease

management. Unfortunately, the current administration denied Indiana's request to continue operating their program under the Medicaid waiver rules.<sup>43</sup>

The Medicaid reforms proposed in the fiscal year 2014 budget take the opposite approach and instead provide all states with the necessary flexibility to pursue reforms similar to the Indiana plan.

- **Repeal the health-care law's expansion of Medicaid.**

The health-care law calls for major expansions in the Medicaid program beginning in 2014. These expansions will have a significant impact on the federal share of the Medicaid program, and will dramatically increase spending.

In the face of enormous stress on federal and state budgets and declining quality of care for Medicaid, the health-care law would increase the eligible population for the program by one-third. This future fiscal burden will have serious budgetary consequences for both federal and state governments. Although the health-care law requires the federal government to finance 100 percent of the Medicaid costs associated with covering new enrollees, this provision begins to phase out in fiscal year 2016. At that time, state governments will be required to assume a share of this cost. This share increases from fiscal year 2016 through 2020, when states will be required to finance 10 percent of the health-care law's expansion of Medicaid.

Not only does this expansion magnify the challenges to both state and federal budgets, it also binds the hands of local governments in developing solutions that meet the unique needs of their citizens. The health-care law would exacerbate the already crippling one-size-fits-all enrollment mandates that have resulted in below-market reimbursements, poor health-care outcomes, and restrictive services. The budget calls for repealing the Medicaid expansions contained in the health-care law and removing the law's burdensome programmatic mandates on state governments.

- **Repeal the health-care law's exchange subsidies.**

According to CBO estimates, the health-care law will add more than \$1.2 trillion in new spending to the federal balance sheet, providing eligible individuals with subsidies to purchase government-approved health insurance.<sup>44</sup> These subsidies can only be used to purchase plans that meet standards determined by the new health-care law. In addition to this enormous market distortion, the law also stipulates a complex maze of eligibility and income tests to determine how much of a subsidy qualifying individuals may receive.

The new law couples these subsidies with a mandate for individuals to purchase health insurance and bureaucratic controls on the types of insurance that may legally be offered. Taken together, these provisions will weaken the private-insurance market. Exchange subsidies take the health-care market in the wrong direction, breaking what's working at a time when policymakers need to fix what's broken. Government mandates will drive out all but the largest insurance companies. Punitive tax penalties will

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<sup>43</sup> Roy, Avik. "[Obama Administration Denies Waiver for Indiana's Popular Medicaid Program.](#)" *Forbes*. 11 November 2011.

<sup>44</sup> CBO. "[Estimate of the Budgetary Effects of the Insurance Coverage Provisions Contained in the Affordable Care Act.](#)" February 2013.



force individuals to purchase coverage whether they want it or not. Further, the law does not condone any policy that would require entities or individuals to finance activities or make health decisions that violate their religious beliefs.

This budget repeals the President's onerous health-care law. Instead of putting health-care decisions into the hands of bureaucrats, Congress should pursue patient-centered health-care reforms that actually bring down the cost of care by empowering consumers.

- **Allow states to customize SNAP to address the needs unique to their citizens.**

This budget retools federal aid to low-income families in two ways. First, it eliminates the incentive for states to sign up as many recipients as possible. After employment has recovered, it converts SNAP into a block grant, indexed for inflation and eligibility. This reform allows states to tailor their programs to their recipients' needs. And it encourages states to help recipients find work. Second, it calls for time limits and work requirements. It suggests, however, that the federal government implement these reforms gradually to give states and recipients time to adjust.

- **Address barriers to upward mobility.**

This budget addresses this problem by giving states more flexibility to design these programs according to their recipients' needs. By allowing states more flexibility, we can allow states to design their programs to smooth implicit marginal tax rates and ensure individuals aren't punished by the federal government when they take steps to improve their lives.

- **Reinstitute welfare's work requirements.**

The administration, in contravention to current law, has claimed authority to waive the work requirements—and all other requirements—of the Temporary Assistance to Needy Families program. This budget rescinds any authority the administration thinks it has to provide for waivers of the work requirement of the TANF program. It assumes that President Clinton and the Republican majority at the time were correct in requiring robust work requirements for the TANF program—which led to the largest sustained reduction in child poverty since the onset of the "Great Society."

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**RETIREMENT SECURED**

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## RETIREMENT SECURED

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In the 20<sup>th</sup> century, the federal government forged a social contract with working families. At the end of their careers, the government would provide health and income security in their retirement. In the 21<sup>st</sup> century, that contract is in jeopardy. Rising health-care costs and an aging population threaten to bankrupt two crucial programs: Medicare and Social Security.

The failure of politicians in Washington to be honest about Medicare and Social Security is putting the health and retirement security of all Americans at risk. The fact is that Medicare and Social Security are in dire need of reform. With both programs weighed down by tens of trillions of dollars of unfunded liabilities, the federal government is making promises to current workers about their health and retirement security for which it has no means to pay. Without reform, these empty promises will soon become broken promises.

Washington's policy response to the demographic and economic pressures threatening Medicare and Social Security has been a disappointing failure. For too long, politicians of both parties have lacked the political will to deal with the underlying structural issues that are weakening these programs. Instead, they have denied the problem or made the problem worse.

In Medicare, the federal government has tried to address cost pressures by cutting provider payments in ways that hurt quality and restrict access for seniors. Absent reform, current seniors will experience diminished care, while the next generation will inherit a bankrupt Medicare program.

In Social Security, government's refusal to deal with demographic realities has endangered the solvency of this critical program. Absent reform, seniors, those with disabilities, and their families will experience sharp benefit cuts when the trust fund is exhausted, while the next generation will inherit a Social Security program too unstable to permit them to plan for their own retirement with confidence.

Unfortunately, years of neglect by policymakers who were unwilling to confront the structural challenges posed by these programs are pushing Medicare and Social Security into a state of peril. Left unaddressed, the spending pressures in these programs don't just put the solvency of the federal government at risk and future economic growth in doubt—they also threaten the government's ability to protect the promise of health and retirement security for millions of seniors and those with disabilities today, as well as for generations to come.

This budget protects and strengthens Medicare for current and future generations. It also requires the President and Congress to work together to forge a solution for Social Security. This budget recognizes that the federal government must keep its word to current and future seniors. And to do that, it must reform these programs.

### *Medicare in brief*

- **Preserve Medicare for those in or near retirement.**
- **Reform Medicare for younger generations.**
- **Repeal the health-care rationing board.**

- **Reform the medical-liability system.**
- **End the raid on the Medicare Trust Fund.**
- **Means-test premiums for high-income seniors.**

#### *Social Security in brief*

- **Require the President to submit a plan to shore up the Social Security Trust Fund.**
- **Require Congress to submit a plan of its own.**

#### *Federal-workforce retirement in brief*

- **Reform civil-service pensions.**
- **Reform the Pension Benefit Guaranty Corporation.**

### Medicare

#### *Challenge*

In 1965, our country made a commitment to seniors: Government would help them pay for health care so they wouldn't have to exhaust their life savings—or their children's—to survive a costly illness. Medicare was created to fulfill that commitment, but now this program is at risk. If we don't fix the program's structural flaws, it will exacerbate the problem it was meant to solve: millions of seniors without adequate health care and millions of young workers saddled with a crushing debt burden.

The current Medicare program attempts to do two things to make sure that all seniors have secure, affordable health insurance that works. First, recognizing that seniors need extra protection when it comes to health coverage, it pools risk among all seniors to ensure that they enjoy secure access to care.

Second, Medicare subsidizes coverage for seniors to ensure that coverage is affordable. Affordability is a critical goal, but the subsidy structure of Medicare is fundamentally broken and drives costs in the wrong direction. The open-ended, blank-check nature of the Medicare subsidy drives health-care inflation at an astonishing pace, threatens the solvency of this critical program, and creates inexcusable levels of waste in the system.

Politicians' repeated failures to solve this problem underscore the critical need for structural reform to ensure lasting solvency. Time and again, Congress has applied band-aids to control costs by reducing the rate at which doctors, hospitals, and other providers are reimbursed for treating Medicare patients. These repeated fee reductions create backwards incentives for those providing care, resulting in the volume of services provided for each condition being increased, costs being shifted onto private health-insurance plans, or Medicare patients simply losing access to care. The incentive to increase volume results in waste, fraud, and abuse. The incentive to shift costs results in higher costs for all patients. And the incentive to turn Medicare patients away results in restricted access to critical care for seniors.

According to CBO's 2012 Long-Term Outlook Alternative Fiscal Scenario, Medicare is projected to rise from 3.7 percent of GDP today to 13 percent by 2085.<sup>45</sup> The unchecked growth of the Medicare program cannot be sustained, and the government's continued reliance on price controls will only make matters worse. Washington's failure to advance structural reforms threatens not just the affordability of coverage for seniors, but also the security that comes with knowing that coverage can be obtained at any price.

### *Solutions*

- **Preserve Medicare for those in or near retirement.**
- **Reform Medicare for younger generations.**

Beginning in 2024, for those workers born in 1959 or later, Medicare would offer them a choice of private plans competing alongside the traditional fee-for-service option on a new Medicare Exchange. Medicare would provide a premium-support payment either to pay for or to offset the premium of the plan chosen by the senior.

The Medicare Exchange would provide seniors a competitive marketplace in which they could choose a plan the same way members of Congress and federal employees do. Every plan, including the traditional fee-for-service option, would participate in an annual bidding process to determine the federal contribution seniors would receive to purchase coverage. Health-care plans would compete for the right to serve Medicare beneficiaries.

The benchmark plan would be either the second-least-expensive private plan or fee-for-service Medicare, whichever cost less. If a senior chose a more expensive plan than the benchmark, he or she would pay the difference between the subsidy and the monthly premium. And if a senior chose a plan less expensive than the benchmark, he or she would receive a rebate for the difference. Medicare would offer higher payments depending on the patient's health history and the cost of living. And it would require private plans to cover at least the actuarial equivalent of the benefit package offered by the fee-for-service option.

Instead of pegging the growth rate to a predetermined formula, Medicare would increase premium subsidies according to a competitive-bidding process. As a backup, the per-capita cost once the program has begun could not exceed nominal GDP growth plus 0.5 percent. The President has proposed to empower the Independent Payment Advisory Board to hold Medicare growth to the same rate. Unlike IPAB, this proposal would use competition—not bureaucratic fiat—to control costs.

This budget will make sure low-income Americans don't fall through the cracks. If costs rose faster than the established limit, the federal government would pay the out-of-pocket expenses of those patients who qualified for both programs. Meanwhile, those seniors who didn't qualify for Medicaid but were still under an income threshold would receive fully funded accounts to offset out-of-pocket costs. This

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<sup>45</sup> CBO. "Long-Term Outlook Alternative Fiscal Scenario." June 2012.

budget would also apply means-testing thresholds like those in place for Medicare Parts B and D to the new Medicare program, so high-income seniors would pay a higher share of their premiums.

This budget requires every plan in the Exchange to offer guaranteed issue and community rating. Insurers would be unable to deny coverage based on pre-existing conditions. And they would be unable to impose prohibitively high costs on patients with chronic health problems. Every senior would have access to a plan that offered at least as much value as fee-for-service Medicare. So every senior would be able to choose a plan that works for them—without fear of denial or discrimination.

In addition, the federal contribution would be risk-adjusted so the sickest seniors would receive more help with their higher premiums. The Centers for Medicare and Medicaid Services would also conduct an annual risk-review audit of all insurance plans participating in the Exchange. Insurance plans covering a higher-than-average number of low-risk seniors would pay a fee. Meanwhile, insurance plans covering a higher-than-average number of high-risk seniors would receive an incentive payment. The fees and incentive payments would flow through the same fund, so one would pay for the other.

- **End the raid on the Medicare Trust Fund.**

Supporters of the 2010 government takeover of health care insisted the law would both shore up the Medicare Trust Fund and pay for a new health-care entitlement program. In testimony before the committee, Medicare's chief actuary stated the truism that the same dollar could not be used twice.<sup>46</sup> This budget calls for directing any potential Medicare savings in current law toward shoring up Medicare, not paying for new entitlements.

- **Repeal the health-care rationing board.**

This budget repeals the President's misguided health-care law, including the IPAB—the panel of 15 unelected bureaucrats empowered to cut Medicare in ways that would deny care for seniors. Competition—not bureaucratic rationing—is the best way to contain costs while improving quality of care.

- **Reform the medical-liability system.**

This budget also advances common-sense curbs on abusive and frivolous lawsuits. Medical lawsuits and excessive verdicts increase health-care costs and result in reduced access to care. When mistakes happen, patients have a right to fair representation and fair compensation. But the current tort-litigation system too often serves the interests of lawyers while driving up costs. The budget supports several changes to laws governing medical liability, including limits on noneconomic and punitive damages.

- **Means-test premiums for high-income seniors.**

This budget also advances a bipartisan proposal to further means-test premiums in Medicare Parts B and D for high-income seniors, similar to the President's proposal in his fiscal year 2013 budget.

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<sup>46</sup> Foster, Richard. Testimony to the House Budget Committee. 26 January 2011.



**Table 1**

**The Simple Truth about Medicare’s Future**

	<b>Bureaucrat Control</b>	<b>Patient Control</b>
<b>Proposal</b>	The President’s partisan health-care law creates an unaccountable board of 15 unelected bureaucrats—the Independent Payment Advisory Board—empowered to cut Medicare in ways that will result in denied care and restricted access for seniors. The bureaucrat-imposed cuts threaten critical care for current seniors and fail to strengthen Medicare for future generations.	Bipartisan solutions to preserve the Medicare guarantee, offering guaranteed coverage options to future seniors, regardless of pre-existing conditions or health history, financed by a premium-support payment adjusted to provide additional financial assistance to low-income and less-healthy seniors and less to the wealthy. The Medicare health plans, including a traditional Medicare option, would compete against each other to offer higher quality care at lower costs.
<b>Ration care?</b>	Yes. IPAB’s unelected and unaccountable bureaucrats have the power to determine what “rationing health care” means, allowing them to cut Medicare in ways that harm seniors’ access to providers and lead to the denial of critical care.	No. Strips unaccountable Washington bureaucrats of their rationing power; puts patients in control of their health care decisions instead of government, and forces providers to compete for the right to serve seniors. All Medicare health plans are required to meet high standards of care.
<b>Control costs?</b>	No. Cutting reimbursements only reduces access, while the true costs of care continue to grow.	Yes. Harnessing the power of choice and competition helps tackle the root drivers of health inflation that are bankrupting the current system.
<b>Who is in control?</b>	An unaccountable board of 15 unelected bureaucrats.	Patients and their doctors.
<b>Protect benefits?</b>	No. The President’s latest budget proposes to give IPAB “additional tools” that would give it the power to change benefits in ways that restrict access for seniors. Seniors are prohibited from legal appeals to IPAB’s decisions.	Yes. Making no changes for current seniors, ensuring that traditional Medicare remains an option, and strengthening the program for future seniors protects the Medicare guarantee.
<b>Current seniors</b>	Exposed to the harmful consequences of IPAB.	No changes.
<b>Solvent future?</b>	No. Medicare’s trust funds are exhausted, and the program collapses into bankruptcy.	Yes. Medicare will be able to deliver on its critical mission to seniors today and future generations.

## Social Security

President Franklin Roosevelt once said the purpose of Social Security was to protect the elderly and the vulnerable from the “dreadful consequence of economic insecurity.”<sup>47</sup> Unfortunately, because of demographic changes, that protection is at risk.

The country is getting older, and more workers are becoming beneficiaries. In 1950, there were about 16 working-age Americans for each retiree. The average man could expect to live an additional 11.9 years after they turned 65—for women it was 13.4. Now, however, there are about 3 workers per retiree. Today, the average man can expect to live an additional 17.7 years after they turn 65. Women can expect to live another 20 years.<sup>48</sup>

In addition, the program offers much more generous benefits than it did in the past—and it demands much higher taxes to pay for them. In 1950, there were 2.9 million beneficiaries. Today, there are over 55 million—an 18-fold increase. Initially, the worker and employer each paid a 1 percent payroll tax. Today, they each pay a 6.2 percent tax.

These long-term trends threaten the program, and they’re about to get worse. The first members of the baby-boom generation—those born between 1946 and 1964—are already eligible for early retirement. What’s more, people retire earlier than they did in the past. In 1945, the average retirement age was 69.6 years for men and 68.5 years for women. In 2011, it was 64.0 years and 63.8 years, respectively.<sup>49</sup>

To maintain these benefits for future retirees, the federal government would have to raise payroll taxes to crushing levels. In 1935, each worker contributed less than 2.5 percent to the benefit of a current retiree. By 2030, each worker will be paying for nearly half of the benefit for a current retiree. That would represent a massive shift of wealth from younger families to Social Security recipients. No economy would grow under such a heavy tax burden.

The deny-and-delay approach to Social Security’s looming bankruptcy has been illustrated perfectly by Senate Majority Leader Harry Reid of Nevada. First, Reid claimed that warnings of Social Security’s bankruptcy represented “an outright lie.” Then, when confronted with the trustees’ report showing that Social Security’s trust funds will be exhausted in fewer than 30 years, Leader Reid replied, “Two decades from now, I’m willing to take a look at it. But I’m not willing to take a look at it right now.”<sup>50</sup>

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<sup>47</sup> Roosevelt, Franklin. “Toward Economic Security.” 17 January 1935.

<sup>48</sup> Period Life Expectancy. Social Security Administration. Office of the Chief Actuary.

<sup>49</sup> Annual Statistical Supplement 2012. Social Security Administration. February 2013.

<sup>50</sup> O’Brien, Michael. “Reid: Leave Social Security Alone.” *The Hill*. 16 March 2011.

Similarly, the top Democrat in the House of Representatives, House Minority Leader Nancy Pelosi of California refuses to acknowledge Social Security's most basic math. When asked in 2006 when she would put forward a plan to fix Social Security, Pelosi responded: "Never. Is never good enough for you?"<sup>51</sup>

If we act now, we can preserve the program for those in or near retirement. If Washington continues to play politics, however, then even current retirees will be at risk. The program's actuary predicts that the trust fund will be exhausted in 2033—so it will be able to pay only about 75 percent of the benefits owed.

- **Require the President to submit a plan to shore up the Social Security Trust Fund.**
- **Require Congress to submit a plan of its own.**

In a shared call for leadership, this budget calls for action on Social Security by requiring both the President and Congress to put forward specific ideas and legislation to ensure the sustainable solvency of this critical program. Both parties must work together to chart a path forward on common-sense reforms, and this budget provides the nation's leaders with the tools to get there.

Previous proposals put forward by leading reformers offer guidance on where bipartisan consensus can be reached on strengthening Social Security. For example, the President's Fiscal Commission advanced solutions to ensure the solvency of Social Security.

The Commission suggested a more progressive benefit structure, with benefits for higher-income workers growing more slowly than those of low-income workers who are more vulnerable to economic shocks in retirement. It also recommended reforms that take account of increases in longevity to arrest the demographic problems that are undermining Social Security's finances.

In addition, there is a bipartisan consensus that Social Security reform should provide more help to those who fall below the poverty line after retirement. As part of a plan to strengthen the safety of the nation's most vulnerable citizens, lower-income seniors should receive more targeted assistance than those who have had ample opportunity to save for retirement.

Although certain details of the Commission's Social Security proposals are of debatable merit, the Commission undoubtedly took several steps forward on bipartisan solutions to strengthen Social Security. This budget builds upon the Commission's work, forcing action to solve this problem by requiring the President and Congress to work together to advance solutions.

People are living longer. The baby boomers have begun to retire. Health-care costs are skyrocketing. These are the facts, and they require a better approach to renew the social contract. This budget fulfills the mission of health and retirement security for all Americans by saving and strengthening existing programs through common-sense reforms. The solutions are clear; what remains in question is whether elected leaders have the resolve to save these programs.

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<sup>51</sup> Bacon, Perry. "Don't Mess with Nancy Pelosi." *Time*. 27 August 2006.

- **Reform civil-service pensions.**

In keeping with a recommendation by the National Commission on Fiscal Responsibility, this option calls for federal employees—including members of Congress and staff—to make greater contributions toward their own retirement. The federal workforce is composed of some of the best educated and most dedicated people in America. This workforce is integral to a well-functioning government. However, taxpayers must also receive an excellent value for their dollars. The Congressional Budget Office recently estimated that, on average, federal employees make 16 percent more in total compensation than their private-sector counterparts. This reform would begin to rectify that imbalance. It would save an estimated \$132 billion over ten years.

- **Reform the Pension Benefit Guaranty Corporation.**

Currently, the Pension Benefit Guaranty Corporation faces a \$34.3 billion unfunded liability. While this budget does not assume the President's proposal from 2012, it recognizes the need to reform the PBGC to ensure that a future taxpayer-funded bailout does not occur.

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**FAIRNESS RESTORED**  
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On Tuesday, March 12, 2013

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## FAIRNESS RESTORED

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Equality under the law is the bedrock of our legal system. Each person's voice should resonate equally in the halls of government. No special interest should be able to drown out the others. Building on this principle, our government offers strong legal protections to encourage economic growth. It provides a stable environment in which people can work, save, and invest without fear that government will stack the deck against them.

The United States still enjoys an enormous edge over most of the world when it comes to the strength of its institutions and its respect for the rule of law. But America is moving in the wrong direction, and job creators have taken notice. Special interests are using the levers of government to their advantage. In major sectors of the economy—especially energy, housing, finance, and health care—the administration is playing favorites—picking winners and losers through its tax and regulatory policy. For our economy to grow—and for the broad public to enjoy that growth—we need to return to the rule of law.

The administration's uncontrolled, wasteful spending in combination with an overzealous regulatory agenda has weakened an anemic economy and created barriers to job creation, especially for small businesses. To restore fairness—and vitality—to our economy, this budget ends cronyism; eliminates waste, fraud, and abuse; and returns the federal government to its proper sphere of activity.

### *Energy in brief*

- **Restore competition to the energy sector with the goal of energy independence.**
- **Stop the government from buying up unnecessary land.**

### *Housing in brief*

- **Wind down Fannie Mae and Freddie Mac.**
- **Reform the Federal Credit Reform Act.**

### *Financial services in brief*

- **Revisit flawed financial regulations.**

### *Health care in brief*

- **Repeal the President's health-care law.**
- **Move toward patient-centered reform.**

### *Cutting spending in brief*

- **Cap spending.**
- **Eliminate waste.**

## Energy

### Challenge

The administration continues to penalize economically competitive sources of energy and to reward their uncompetitive alternatives. On the one hand, it pours money into its favored industries. In 2012, the Congressional Budget Office found total energy subsidies were \$24 billion, of which \$16 billion were spent on “green” energy programs and \$2.5 billion on fossil fuels.<sup>52</sup> The White House provided over six times the subsidies for these green-energy programs, which the Energy Information Administration says also produced the smallest amounts of energy.<sup>53</sup> And the White House refuses to answer for almost \$16 billion spent on “stimulus” grants, almost a quarter to European and Asian renewable-energy companies.<sup>54</sup>

Many of the administration’s loan-guarantee projects have failed: Beyond Solyndra, the latest ill-fated ventures include a \$737 million loan guarantee to Solar Reserve for a 110-megawatt solar tower on federal land in Nevada and a \$337 million guarantee for Mesquite Solar 1 to develop a 150-megawatt solar plant in Arizona. Abound Solar, which received \$400 million in loan guarantees, was cited by the Colorado Department of Public Health and Environment for hazardous waste left from their failed solar panels.<sup>55</sup> Another bankrupt Department of Energy grant recipient, A123, intends to hand out as much as \$4.2 million bonuses to top executives as company's assets are sold off.<sup>56</sup>

At the same time, the administration also puts up roadblocks to further development. One of the President’s very first initiatives was to cancel oil leases on onshore federal lands and to delay the offshore leasing plan. The administration’s opposition to domestic drilling continued with a 2012–2017 Offshore Lease Plan Proposal that imposed the same moratorium that had been lifted in 2008. Production on federally controlled lands declined from 2010 to 2011 by 14 percent and even with skyrocketing energy costs, the President refuses to approve the Keystone XL Pipeline project. The construction of the Keystone XL Energy Pipeline would create more than 20,000 direct jobs and 118,000 indirect jobs while battling the high cost of gas. Once it was in operation, the pipeline would contribute an additional \$5.2 billion in property taxes to communities along the route during the life of the pipeline.

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<sup>52</sup> Congressional Budget Office. “How Much Does the Federal Government Support the Development and Production of Fuels and Energy Technologies.” 6 March 2012.

<sup>53</sup> Energy Information Administration. “Direct Federal Financial Interventions and Subsidies in Energy in Fiscal Year 2010.” July 2011.

<sup>54</sup> House of Representatives Energy and Commerce Committee. “American Taxpayer Investment, Foreign Corporation Benefit.” 17 January 2013.

<sup>55</sup> Sandoval, Michael. “Bankrupt Abound Solar to Bury Unused Solar Panels in Cement.” *Heritage Foundation*. 26 February 2013.

<sup>56</sup> Institute for Energy Research. “DOE Spends Taxpayers Money While A123 Goes Bankrupt.” 20 November 2012.



The economic benefits of expanding oil and gas development on federal lands are well documented: According to recent studies, 500,000 new jobs a year in high-wage, high-skill employment sectors, and GDP spill-over effects for \$14.4 trillion in cumulative increased economic activity would be generated over the next 30 years. But the federal government is standing in the way.<sup>57</sup>

While U.S oil production is at its highest levels in two decades, 100 percent of this increase is due to production on non-federal lands.<sup>58</sup> Meanwhile, the federal government owns nearly one-third of the land in the country. That is an area roughly four times the area of the state of Texas. Substantial volumes of oil and gas are known to lie under these government lands. According to the Congressional Research Service, the U.S. combined recoverable natural-gas, oil, and coal endowment is the largest on earth—not Russia, Saudi Arabia, or China. Our country has 163 billion barrels of recoverable oil and enough natural gas to meet the country's demand for 90 years.<sup>59</sup>

Nonetheless, the administration continues to leave these energy sources untapped. In fact, it even seeks to explicitly raise energy costs. In 2008, the administration's future energy secretary, Steven Chu, said, "Somehow we have to figure out how to boost the price of gasoline to the levels in Europe."<sup>60</sup> Then-candidate Obama agreed, arguing in January of 2008: "Under my plan of a cap and trade system, electricity rates would necessarily skyrocket."<sup>61</sup> So in an effort to make green energy more viable, the administration is trying to make fossil fuels more expensive. This was the idea behind the controversial "cap and trade" bill that President Obama tried and failed to pass through Congress in 2009, which would have established an elaborate bureaucratic structure for taxing and rationing conventional energy sources. But instead of accepting this verdict on its preferred policy, the administration continued to pursue its climate initiatives by supporting the Environmental Protection Agency's unilateral plan to impose emissions restrictions on American businesses and consumers. In his last State of the Union address, the President warned Congress if it did not pass a cap-and-trade bill similar to the one that failed in 2009, he would regulate emissions via executive fiat. The EPA is poised to make good on the President's threat by abusing the powers granted in current law.

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<sup>57</sup> Mason, Dr. Joseph R. "Beyond the Congressional Budget Office: The Additional Economic Effects of Immediately Opening Federal Lands to Oil and Gas Leasing." Institute for Energy Research. February 2013.

<sup>58</sup> House of Representatives Energy and Commerce Committee. "New [CRS] Report Chronicles Oil and Gas Production on Federal Lands Declining Under Obama's Watch." 5 March 2013.

<sup>59</sup> Behrens, Carl and Gene Whitney. "U.S. Fossil Fuel Resources: Terminology, Reporting and Summary." Congressional Research Service. 30 November 2010.

<sup>60</sup> Khan, Huma. "Obama Energy Pick Backs Higher Gas Tax." *ABC News*. 15 December 2008.

<sup>61</sup> Tapscott, Mark. "Obama: 'Under My Plan . . . Electricity Rates Would Necessarily Skyrocket.'" *Washington Examiner*. 1 November 2008.

## *Solutions*

- **Restore competition to the energy sector with the goal of energy independence.**

The budget provides sufficient funding for essential projects, like energy security and basic research and development. But it pares back spending in areas of duplication and non-core functions, like applied and commercial research and development projects best left to the private sector.

For example, renewable projects have received substantial subsidies. According to the EIA, on a dollar-per-unit-of-production basis, the level of subsidies received by the wind and solar industries were almost 100 times greater than those for conventional energy. This does not include the \$27.2 billion allocated in the 2009 “stimulus” bill for energy efficiency and renewable-energy research and investment. In addition, according to the CBO, provisions to benefit energy efficiency and renewable energy accounted for 78 percent of the budgetary cost of federal energy-related tax preferences in 2011. The budget aims to roll back such federal intervention and corporate-welfare spending across energy sectors.

The budget recommends rescinding unobligated balances in the Department of Energy’s loan portfolio. Since its introduction in the 2009 stimulus bill, the department has issued over \$20 billion in new loans and loan guarantees for renewable-energy projects that would not otherwise have been viable. Already, multi-million-dollar projects that were labeled as successes have failed.

This budget will restore fairness by encouraging robust competition. It will end kickbacks to favored industries. And it will promote policies for reliable, low-cost energy. By allowing for the opening of federal land and the Outer Continental Shelf to drilling, this budget moves our country toward the goal of North American energy independence.

- **Stop the government from buying up unnecessary land.**

Instead of requiring that all proceeds from land sales be used to acquire other parcels of land and to cover sales expenses, this budget directs 70 percent of the proceeds, net of expenses, to be used for deficit reduction. It would limit the Department of the Interior’s share of the receipts to \$60 million per year. It would also reduce the amount of federal spending not subject to regular oversight through the congressional appropriation process

## **Housing**

### *Challenge*

The federal takeover of Fannie Mae and Freddie Mac continues to be the most costly taxpayer bailout to result from the 2008 financial crisis. So far, Fannie and Freddie have received roughly \$190 billion in taxpayer-funded bailouts.

For years, policymakers insisted that Fannie and Freddie, despite being government-sponsored enterprises, posed no liability to the federal government. Through their unique status, which they cultivated through political influence, they recklessly expanded their balance sheets, privatized their profits, outsourced their risk to the American public, and created a disaster for taxpayers.

Despite the government's abysmal track record of interference in the housing market, Fannie, Freddie, and another government housing agency, the Federal Housing Administration, now dominate 99 percent of the market for the issuance of new mortgage-backed securities. Corporate-welfare arrangements like the GSEs socialize risk by shifting losses to the taxpayers, but allow profits to accrue to management, bondholders, and Wall Street institutions that trade mortgage-backed securities. On their current course, the GSEs represent a failed experiment in corporate welfare and the largest bailout of financial institutions in recent history.

#### *Solutions*

- **Wind down Fannie Mae and Freddie Mac.**

This budget will end corporate welfare in the housing sector. It seeks to drastically decrease the market dominance of Fannie Mae and Freddie Mac by gradually ending their government guarantees and taxpayer subsidies. It also supports various ways to attract private capital into the entities' balance sheets.

- **Reform the Federal Credit Reform Act.**

This budget prevents the next bailout of a housing agency. The Federal Housing Authority's Mutual Mortgage Insurance Fund's hasn't met its congressionally mandated capital-reserve ratio of 2 percent since 2009. This capital reserve is intended to protect taxpayers from losses on FHA guarantees. If the ratio falls below zero, taxpayers will automatically be on the hook.

Given this danger, the government should adopt measures to discourage further risky behavior. The customary budget treatment of FHA loans understates their costs and encourages the government to shift risk from Fannie and Freddie to FHA. This budget requires the use of fair-value scoring for federal housing-credit programs so we properly evaluate taxpayers' risk.

### **Financial Services**

#### *Challenge*

The actions taken at the height of the financial panic of 2008, with credit markets frozen, succeeded in halting a systemic panic, but the Troubled Asset Relief Program (TARP) has since morphed into crony capitalism at its worst. Abandoning TARP's original and limited purpose of providing targeted assistance to unlock credit markets, the Treasury Department's senior officials transformed TARP into an ad hoc, opaque bailout and a slush fund for large private institutions.

TARP was supposed to be confined to a narrow emergency. Unfortunately, the use of TARP funds was approved for the bailouts of all sorts, including cash infusions for the automakers General Motors and Chrysler. This entrenched the idea that TARP could be used for just about any kind of economic intervention, regardless of the fact that the original bill charged the program to “purchase . . . troubled assets from any financial institution.”

Even greater damage came later, when the Obama administration used the auto bailout to trample the rights of Chrysler’s secured bondholders—including state pension funds—in order to give politically favored groups a better deal than they were entitled to under bankruptcy law. The damage done by the automaker bailouts went well beyond reducing confidence in the U.S. bankruptcy system—it was on display when the administration used unbalanced closed-door meetings to strong-arm automakers into supporting new fuel-economy regulations.

The financial-regulation law authored in 2010 by Senator Chris Dodd and Representative Barney Frank (the Dodd-Frank Act) epitomizes the trend of government overreach in the private sector. The Dodd-Frank Act has expanded the power of unelected bureaucrats, created a mandate for hundreds of new regulations, and entrenched the role of influence-peddlers in Washington. It has solidified government’s guarantee of Wall Street at the expense of the taxpayer and imposed burdensome compliance costs on a wide array of private-sector companies. Although the bill is dubbed “Wall Street Reform,” it actually intensifies the problem of too-big-to-fail by giving large, interconnected financial institutions advantages that small firms will not enjoy.

While the authors of the Dodd-Frank Act went to great lengths to denounce bailouts, this law only sustains them. The Federal Deposit Insurance Corporation now has the authority to draw on taxpayer dollars to bail out the creditors of large, “systemically significant” financial institutions. CBO’s expected cost for this new authority is \$33 billion, although the office recognizes that “the cost of the program will depend on future economic and financial events that are inherently unpredictable.” In other words, another large-scale financial crisis in which creditors are guaranteed to get government bailouts would cost taxpayers much, much more.

Developments in the area of financial-services regulation, including Dodd-Frank, amount to an enormous transfer of power to the same bureaucrats who were blindsided by the financial meltdown of 2008. This will further deter economic expansion, invite political corruption and degrade self-government.

#### *Solution*

- **Revisit flawed financial regulations.**

This budget would end the bailout regime enshrined into law by the Dodd-Frank Act. The federal government must ensure financial markets are fair and transparent. And it must hold accountable those who violate the rules. But federal bureaucrats should not micromanage the system or protect Wall Street bankers from the risks they are taking.

## Health Care

### *Challenge*

The President's health-care law takes crony politics to a new level. The law increases the power of bureaucrats, which in turn increases the power of those special interests in the health-care industry that are big enough to secure themselves a seat at the table when the rules are written.

The cronyism in the new law does not stop at the transfer of billions of taxpayer dollars to the insurance industry. It also allows the Health and Human Services Secretary and federal bureaucrats to grant waivers exempting favored groups from its onerous mandates. For a lucky few, such as the many unions that have been granted waivers, this amounts to a "stay" from the full consequences of the new law. For the unlucky many without political connections, this means subservience to the whims of the party in power—even if First Amendment rights to religious liberty are involved, as America's religious employers have recently learned.

Though the right to freedom of conscience has not been respected in the waiver process, the administration has for other reasons granted over 1,400 businesses and organizations temporary waivers from the law's requirements. These waivers do not guarantee permanent relief, nor do they help those firms that lack the connections to lobby for waivers. The powerful discretion assumed by the administration to play judge in determining who receives these waivers and whether to extend them does tremendous damage to the rule of law.

The health-care law vastly expands an already unwieldy administrative state, creating 159 new boards, bureaucracies, commissions, and government programs. The law is built around the assumption that bureaucrats, if given enough power over the health-care marketplace, can curb rising health-care costs by expertly determining prices and dictating treatment options to doctors and patients. This "fatal conceit" stands in stark contrast to America's historic commitment to individual liberty and personal responsibility. For over 40 years the federal government has attempted to control health-care-cost growth in Medicare and Medicaid, and the result has been an explosion in federal spending and health-care cost growth. In the health-care sector as elsewhere, the best way to control costs is to give Americans control over the money they spend on health services, thus letting competition driven by 300 million consumers control costs, improve quality, and expand access.

The approach represented by the new law transforms the relationship between citizen and state, leaving individuals increasingly passive and dependent on their government. It will substantially diminish quality of and access to care as future policymakers cut costs to meet budgetary bottom lines rather than patients' medical needs. There is no way for "experts" in Washington to know more about the health-care needs of individual Americans than those individuals, their families, and their doctors know, nor should they second-guess how each individual would prioritize services against costs.

The problems with this approach are already popping up all over the country. Health-care premiums are escalating relentlessly. The new law has aggravated the worst aspects of the U.S. health-care system, without fixing what was (and remains) broken.

## *Solutions*

- **Repeal the President's health-care law.**

This budget puts an end to government-run health care and the cronyism and corporate welfare it creates. What America already knows about the law is this: Costs are going up, premiums are rising, and millions of people will lose the coverage they currently have. Job creation is being stifled by its taxes, penalties, mandates and fees.

The President's new health-care law will exacerbate the spiraling cost of health care, explode deficits and debt, and forever alter the relationship between the government and the American people. Repealing the law stops this downward slide and stops \$1.8 trillion in new spending by abolishing the new exchange subsidies and making sure that not a penny goes toward implementing the new law.

This repeal turns off the new gusher of taxpayer money for those special interests that were powerful enough to ensure themselves a seat at the table when the 2,700 page law was being written. It also stops the invasive mandates from bureaucrats who grant waivers to the privileged and impose one-size-fits-all regulation on the rest.

- **Move toward patient-centered reform.**

There is a consensus of leaders from both parties coalescing around the right way forward in health care. Reform should address the government-imposed inequities and barriers to true choice and competition. Common-sense solutions include enacting medical-liability reform, ensuring Americans can purchase quality coverage across state lines, and expanding access to consumer-directed health-care options. Addressing distortions in the tax code could begin by giving employers the opportunity to offer their employees a free-choice option, so that workers could be free to devote their employer's health-coverage contribution to the purchase a health-insurance plan that works best for them.

### **Cutting Spending**

#### *Challenge*

The federal government has added hundreds of thousands of new employees since the President took office. To pay for the public sector's growth, Washington must immediately tax the private sector or else borrow and impose taxes later to pay down the debt.

The federal government's responsibilities require a strong federal workforce. Federal workers deserve to be compensated equitably for their important work, but their pay levels, pay increases, and fringe benefits should be reformed to better align with those of their private-sector counterparts.

Compensation for federal employees continues to outpace pay for their private-sector counterparts. The non-partisan CBO recently released a study saying that federal workers are, on average, compensated 16 percent higher than comparable private-sector employees. Immune from the effects of the recession, federal employees have received regular salary bumps regardless of productivity or economic realities.

The reforms called for in this budget aim to slow the federal government's unsustainable growth, and reflect the growing frustration of workers across the country at the privileged rules enjoyed by government employees. It reduces the public-sector bureaucracy, not through layoffs, but via a gradual, sensible attrition policy. By 2015, this reform would result in a 10 percent reduction in the federal workforce and save \$49 billion over ten years.

#### *Solutions*

- **Cap spending.**

Whether branded as stimulus or rebranded as investment, government spending is no substitute for a true recovery led by the private sector. All of this borrowed money and debt is fueling uncertainty for businesses and job creators, who know that today's deficits are tomorrow's interest-rate and tax increases.

Getting spending under control is critical. This budget builds on the efforts achieved under the Budget Control Act of 2011 to cap spending. It would achieve spending reduction, not just through across-the-board cuts, but by scaling back funding for agencies whose recent budgetary increases have fueled crony politics and government overreach that has weakened confidence in the nation's institutions and its economy.

- **Eliminate waste.**

This budget builds upon the suggestions of the President's Fiscal Commission, the work of the House majority, and the proposals put forward by an array of non-partisan, independent watchdogs that have worked to expose the abuse of taxpayer dollars.

Washington's spending problem did not just develop in the last few years. It will require even more work to undo the damage of decades of reckless spending increases. This budget restores fiscal discipline to government. It does this, not through indiscriminate cuts, but by compelling the elimination of dozens of wasteful and duplicative programs identified by non-partisan watchdogs and government auditors.

### *Anti-fraud accounts*

The federal government wastes billions of American taxpayers' dollars each year by making improper payments to individuals, organizations, and contractors. In 2011 alone, the federal government made an estimated \$115 billion in improper payments. This budget funds targeted increases in anti-fraud accounts, saving billions of dollars in waste, fraud, and abuse in the Medicare, Medicaid, Supplemental Security Income, and Disability Insurance programs.

### *Sales of unneeded federal assets*

In the last year alone, Republicans put forth proposals to sell unneeded federal property. Representative Jason Chaffetz of Utah has proposed to sell millions of acres of unneeded federal land. Likewise, California Representative Jeff Denham's bill to authorize the sale of billions of dollars' worth of federal assets would save the government money, collect corresponding revenue, and remove economic distortions by reducing public ownership. Such sales could also potentially be encouraged by reducing appropriations to various agencies. If done correctly, taxpayers could recoup billions of dollars from selling unused government property.

This budget proposes to reduce the federal auto fleet (excluding the Department of Defense and the U.S. Postal Service) by 20 percent; streamline the process and rationalize the regulations for the disposal and sale of federal property to eliminate red tape and waste; set enforceable targets for asset sales; and hold government agencies accountable for the buildings they oversee.

### *GAO recommendations*

Each year GAO issues a report on eliminating duplicative government programs and saving taxpayers money. In its 2012 report, GAO identified dozens of examples of waste, duplication and overlap. Comptroller General of the United States, Gene Dodaro, recently testified that implementing the suggested reforms government-wide "could potentially save tens of billions of dollars."

This budget requires that all authorizing committees (which oversee government departments and agencies) annually provide to the House Budget Committee (which writes the budget) spending-reduction recommendations for programs in their jurisdictions that are duplicative, wasteful, outmoded, or excessively expensive for the benefits received. Furthermore, these recommendations should be made publicly available, so that taxpayers are provided with the transparency required for full accountability in government. This budget also calls on those authorizing committees to review the billions of dollars spent each year for programs that do not have a current law governing the program's operations.



### *Other examples*

This budget doesn't just take the recommendations of others—it draws upon House Budget Committee examinations that combed the federal budget for other examples of wasteful spending. While no federal department is free of inefficiency, the Department of Transportation in particular offered a number of areas where spending could be cut back responsibly.

In the first two years of the Obama administration, funding for the Department of Transportation grew by 24 percent—and that doesn't count the stimulus spike, which nearly doubled transportation spending in one year. The mechanisms of federal highway and transit spending have become distorted, leading to imprudent, irresponsible, and often downright wasteful spending. Further, however worthy some highway projects might be, their capacity as job creators has been vastly oversold, as demonstrated by the extravagant but unfulfilled promises that accompanied the 2009 stimulus bill, particularly with regard to high-speed rail.

In the wake of these failures, high-speed rail and other new intercity rail projects should be pursued only if they can be established as self-supporting commercial services. The threat of large, endless subsidies is precisely the reason governors across the country are rejecting federally funded high-speed-rail projects. This budget eliminates these projects, which have failed numerous and clear cost-benefit analyses.

### *Farm programs*

Compared to an overall economy that is recovering slowly, the American agricultural sector has remained a strong economic success story. The record-breaking prosperity of American farmers and farm communities is to be celebrated. But it also calls for a re-examination of federal agricultural programs that spend billions each year. Taxpayers should not finance payments for a business sector that is more than capable of thriving on its own.

Production costs have risen, but farmer incomes continue to be supported by strong prices for most crop and livestock commodities. The top five earnings years for farmers in the last 35 years have occurred in the last decade. Yet, at the same time, numerous overlapping government programs exist to provide income support to farmers.

With farm profitability—and deficits—continuing at high levels, it is time to adjust support to this industry to reflect economic realities. This budget calls on the House Agriculture Committee to revisit current farm-support programs, such as the fixed payments that go to farmers irrespective of price levels and the current structure of the crop-insurance programs.

Recognizing that the Agriculture Committee is responsible for implementing these reductions, and to maintain flexibility for the Committee, this proposal does not dictate the specific changes to the programs in under the Committee's jurisdiction. These reforms will save taxpayers \$31 billion over the next decade.

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**A NATION PROTECTED**  
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## A NATION PROTECTED

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The first job of the federal government is to secure the safety of its citizens from threats at home and abroad. Whether defeating the terrorists who attacked this country on September 11, 2001, deterring the proliferation of weapons of mass destruction, or battling insurgents who would harbor terrorist networks that threaten Americans' lives, the men and women of the United States' military have performed superbly. This budget provides the best equipment, training, and compensation for their continued success.

### *Defense in brief*

- **Provide \$560.2 billion for defense spending in fiscal year 2014, an amount consistent with America's military goals and strategies.**
- **Fully fund our nation's commitment to veterans.**

### *Challenge*

After the rapid increase in defense spending needed to fight the global War on Terrorism, there has been tremendous pressure to have an equally rapid decrease in defense spending as combat in Iraq and Afghanistan draws to a close. This pressure, however, has been driven by budget concerns rather than any assessment of the challenges we face internationally—or of what capabilities we want our military to have.

Chairman of the Joint Chiefs of Staff General Martin Dempsey recently testified that “our current security challenges are more formidable and complex than those we faced in downturns following war in Korea, Vietnam, and the Cold War. There is no foreseeable ‘peace dividend’ on our horizon. The security environment is increasingly competitive and dangerous.”<sup>62</sup> The threats to our country have changed since the Cold War, but they have not disappeared. Thirty years ago, we devoted one-quarter of the budget to defense. Now, we devote less than one-fifth. And we spend just under 5 percent of our annual GDP on defense, well below the Cold War average.

To build and sustain a force capable of meeting the challenges we face, we must stop making arbitrary cuts to our defense budget. This year, an automatic sequester took effect, cutting \$42.7 billion from defense in fiscal year 2013. Over the next nine years, the Budget Control Act's enforcement procedures will cut a total of \$492 billion from defense. In November 2011, then-Secretary of Defense Leon Panetta warned that such cuts, if fully implemented, would severely harm our military. After ten years, we would have the smallest ground force since 1940, the smallest Navy since 1915, and the smallest Air Force in its history.

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<sup>62</sup> Dempsey, Martin. Testimony to the Senate Armed Services Committee. 12 February 2013.

The sequester is emblematic of a larger belief in America's decline. Though defense is about 20 percent of the budget, it's absorbing 50 percent of the cuts. The reason is that the administration believes we can afford it. It believes we will not—and should not—take as active a role in world affairs. It believes the burdens are too great and our people are too tired to bear them. This budget rejects that view. It recognizes that we are safe only when we are strong—and that the world needs American leadership.

#### *Solutions*

- **Provide \$560.2 billion for defense spending in fiscal year 2014, an amount consistent with America's military goals and strategies.**

Though operations in Iraq and Afghanistan are winding down, there are real challenges from North Africa to the South China Sea. Each challenge will require a different response, and so we must maintain a force adequate to a rapidly changing world.

This budget ensures that the men and women serving in harm's way have the best training and equipment in the world. But it's not a blank check. This budget builds on savings identified by previous budgets. Two years ago, the budget resolution incorporated \$78 billion of savings over ten years from efficiencies identified by then-Secretary of Defense Bob Gates. And last year, the budget resolution included another \$60 billion of efficiencies recommended by then-Secretary Panetta. Like every other item in the budget, defense spending must be efficient and accountable.

But we should budget for defense by meeting national-security needs, not through arbitrary, across-the-board cuts. The House of Representatives, on multiple occasions, passed responsible replacements to the sequester. Unfortunately, the administration refused to take action, and the sequester took effect for the current fiscal year. This budget puts us on a better course to ensure our troops and military families don't pay the price for Washington's failure to budget responsibly.

This budget provides \$560.2 billion in funding for fiscal year 2014, an amount consistent with our responsibilities. Over the next decade, this budget provides over \$6 trillion to fund our nation's defense. While this is significantly less than the levels in previous budget resolutions passed by the House, it is approximately \$500 billion more than will be available absent changes in the Budget Control Act. Our security is the federal government's top priority. The budget must reflect that fact.

- **Fully fund our nation's commitment to veterans.**

This budget fully funds the nation's commitment to the services and benefits earned by veterans through their selfless military service. The total funding level of \$145.730 billion is about \$9 billion higher than the Veterans Administration's fiscal year 2014 level in its most recent budget request. Veterans are, and will remain, the highest priority within this budget.

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# A BUDGET PROCESS REFORMED

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## A BUDGET PROCESS REFORMED

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Despite the best intentions of budget reformers over the years, mechanisms for spending restraint have broken down over time, and the rules remain stacked in favor of politicians who want to spend more money.

The federal budget process contains numerous structural flaws that bias the government toward ever-higher levels of spending. Large swaths of the budget are not held accountable on a regular basis, and federal budget rules, which are written by Congress, assume that taxpayer money belongs to Washington, not taxpayers. And the processes by which the federal government spends money lack the transparency that is needed for taxpayers to hold Congress accountable.

Budget-process reforms alone cannot solve our spending and debt problems, but coupled with actual spending restraint and structural reforms in entitlement programs, budget-process reforms are an important part of the equation.

When it comes to fixing the broken budget process, the choice facing Americans could not be clearer: The President and his party's leaders have failed to take their budgetary responsibilities seriously. By contrast, the Republican majority in the House has met its legal and moral obligation by passing a bold budget that tackles America's most pressing fiscal challenges. In the 112<sup>th</sup> Congress, the House Budget Committee authored and advanced several reforms aimed at bringing more accountability to the federal budget process. This budget resolution continues in the spirit of those reforms, and the Budget Committee will return to budget-process-reform legislation after the budget resolution is completed.

### *Budget reform in brief*

- **Extend the Budget Control Act's spending caps through the end of the budget window.**
- **Create a budget point of order against legislation that increases net mandatory spending beyond the ten-year window, a limitation that can help check Congressional appetite to create costly open-ended entitlement programs.**
- **Close the loophole that allows discretionary spending limits to be circumvented through advance appropriations.**
- **Require that the costs of legislation related to housing be calculated on a fair-value basis and authorize the use of fair-value-costs estimates for other credit programs.**
- **Call on congressional committees to regularly review programs for waste, fraud, and abuse and to regularly reauthorize programs that should continue to receive taxpayer funding.**

## *Additional reforms proposed in the 112<sup>th</sup> Congress*

- **Reform the budget “baseline” to remove automatic inflation increases in discretionary accounts and require a comparison to the previous year’s spending levels.**
- **Extend the timeframe of the federal budget process to capture long-term unfunded liabilities.**
- **Budget for the long-term term by establishing binding caps for major categories of spending.**

## *Challenge*

The President has delivered one unserious budget after another—none dealing with the nation’s largest fiscal challenges. Four of the five budgets introduced during his presidency were late—shattering the record for any administration for missed budget deadlines. While the President’s budgets have been late and badly flawed, the U.S. Senate did not budget for over 1,400 days.

The purpose of budgeting is to offer the nation a vision for the country’s future. Where there is a contrast between two visions, the budget process is intended to offer the American people an honest debate. But while the President and his party’s leaders have shirked their duty to offer the nation that debate, the House has passed a bold budget that changed the conversation in Washington over the nation’s fiscal crisis.

Not only have House Republicans met their obligation to budget, but also they have introduced and passed reforms to address a broken budget process. These reforms adhere to the principle that the process needs to give policymakers new tools to bring spending under control; to get deficits and debt under control; to enhance oversight; and to increase transparency in the budget process.

## *Solutions*

- **Extend the Budget Control Act’s spending caps through the end of the budget window.**

The Budget Control Act’s fiscal controls expire in 2021. This budget resolution extends these caps for an additional two years.

- **Create a budget point of order against legislation that increases net mandatory spending beyond the ten-year window, a limitation that can help check Congressional appetite to create costly open-ended entitlement programs.**

All too often, legislation is written so its true costs explode in the years beyond the budget window. This budget resolution requires that we look beyond the ten-year budget window to prevent the use of budget games.

- **Close the loophole that allows discretionary spending limits to be circumvented through advance appropriations.**

This budget resolution continues longstanding limits on the ability of the Appropriations Committee to fund programs beyond the budget year, ensuring that most annually funded federal programs are considered in the context of the broader federal budget.

- **Require that the costs of legislation related to housing be calculated on a fair-value basis and authorize the use of fair-value costs estimates for other credit programs.**

In calculating the costs of federal credit programs (i.e., programs offering loans or loan guarantees), the executive branch and Congress should use “fair value” methodologies that consider not only the borrowing costs of the federal government, but also the costs of the market risk the federal government is incurring by issuing a loan or loan guarantee or by making an investment in a private entity. This budget resolution requires the use of fair-value estimates for federal housing programs (they are already in use for calculating the costs of the government conservatorship of Fannie Mae and Freddie Mac) and authorizes the use of this superior accounting methodology for all federal credit programs.

- **Call on congressional committees to regularly review programs for waste, fraud, and abuse and to regularly reauthorize programs that should continue to receive taxpayer funding.**

The rules of the House of Representatives require each committee to hold at least one hearing every four months on waste, fraud, abuse, or mismanagement in government programs. This resolution requires committees to regularly report their findings to the Budget Committee. This will ensure needed reforms and savings are captured. This resolution also calls for committees to regularly reauthorize programs if they are to continue receiving annual funding.

#### *Additional reforms proposed in the 112<sup>th</sup> Congress*

In the 112<sup>th</sup> Congress, members of the House Budget Committee announced a package of ten bills designed to improve the federal budget process. The Committee ultimately marked up four of these bills all of which were passed by the House. The Budget Committee will renew its budget-process-reform efforts after the budget resolution is passed. For more information, see “[Budget Process Reform](#)” on the House Budget Committee’s website.

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**A RESPONSIBLE,  
BALANCED BUDGET**

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On Tuesday, March 12, 2013

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## A RESPONSIBLE, BALANCED BUDGET

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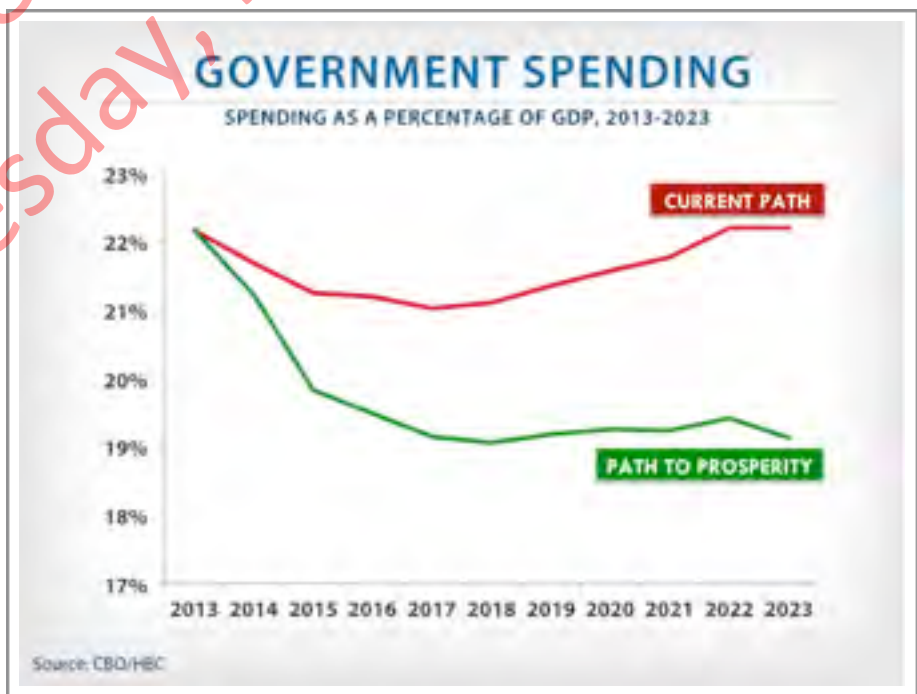
The debt crisis ahead is the most urgent challenge we face today. But the deeper source of the crisis is the drift, under both parties, to expand the size of government. To avert the debt crisis, we need to stop this encroachment and to revive community in American civil society.

*A Responsible, Balanced Budget in brief*

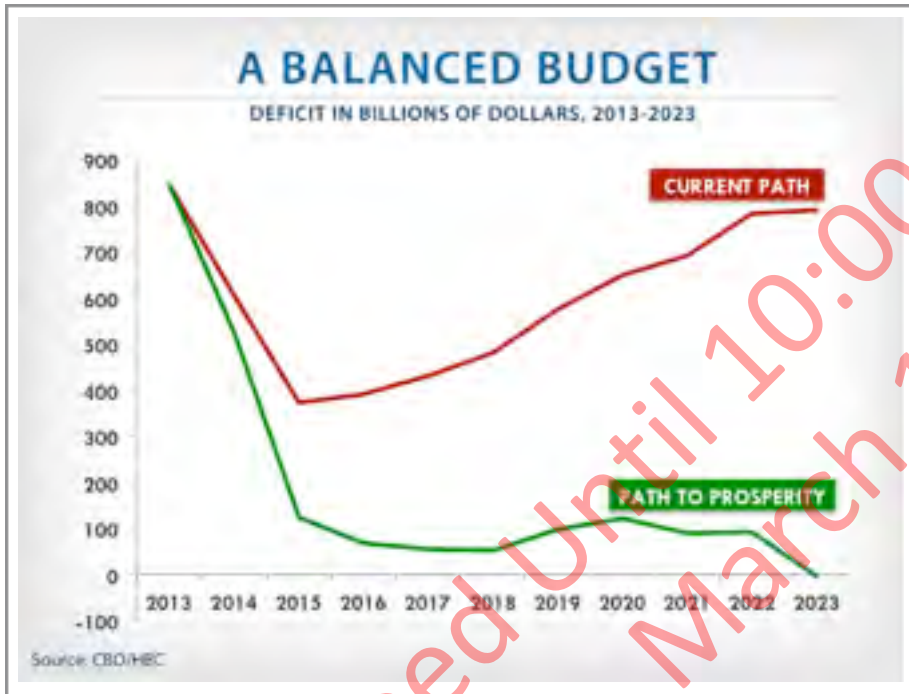
- **Erases the budget deficit in ten years.**
- **Secures \$4.6 trillion in deficit reduction over the next decade.**
- **Lifts the debt over the long term.**

This budget turns the tide. It makes \$4.6 trillion in spending reductions over the next ten years. This budget reforms government spending programs responsibly. It protects key priorities while eliminating waste. And it avoids sudden cuts to current services, such as those the country would experience under a debt crisis.

These reductions are hardly draconian. Under current law, the federal government will spend \$46 trillion over the next ten years. Under this proposal, it will spend roughly \$41 trillion. And this budget doesn't make sudden cuts. Instead, it increases spending at a more manageable rate. For instance, on the current path, spending will rise by an annual average of 5.0 percent. Under this budget, it will rise by only 3.4 percent.

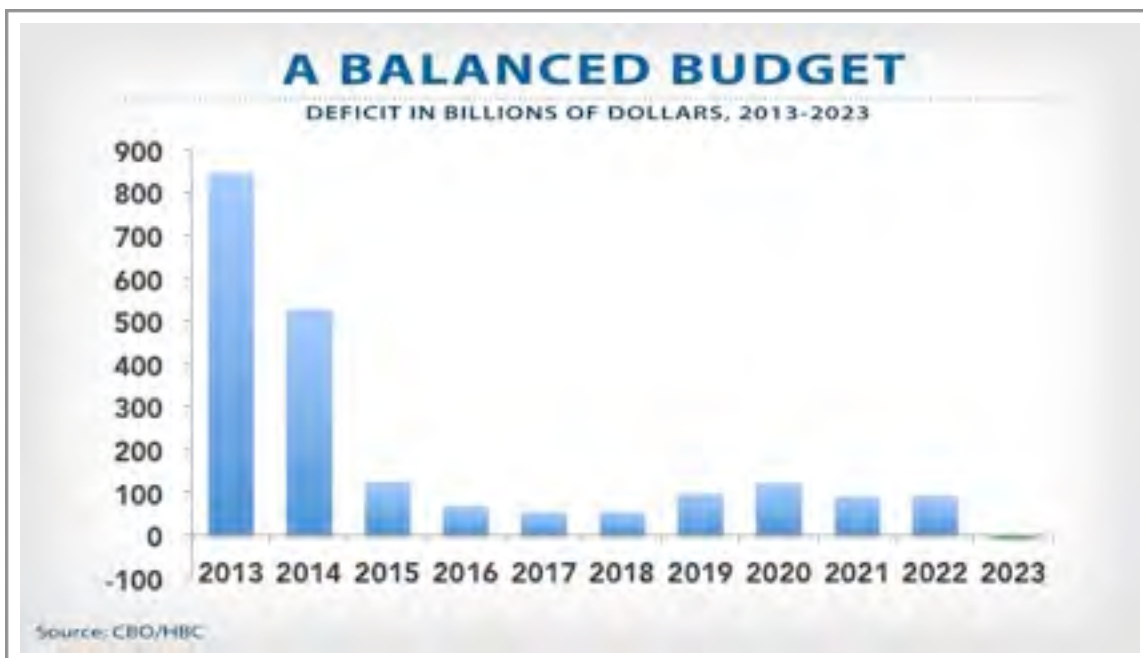


Washington can't keep spending money it doesn't have. So this budget achieves balance in 2023 by holding revenue and spending at 19.1 percent of GDP. A balanced budget is a common-sense, responsible goal. It will boost Americans' confidence that their government is getting its fiscal house in order.



In last year's analysis of the budget resolution, CBO explained the economic benefits of paying down our debt. By lowering our debt, we would also lower interest rates, spurring private investment. Workers would see their wages rise as productivity increased. As a result, the economy would grow to new heights. In a more recent analysis, CBO projects that a \$4 trillion reduction in primary deficits would result in gross national product being 1.7 percent higher in 2023 than it would be under current law.

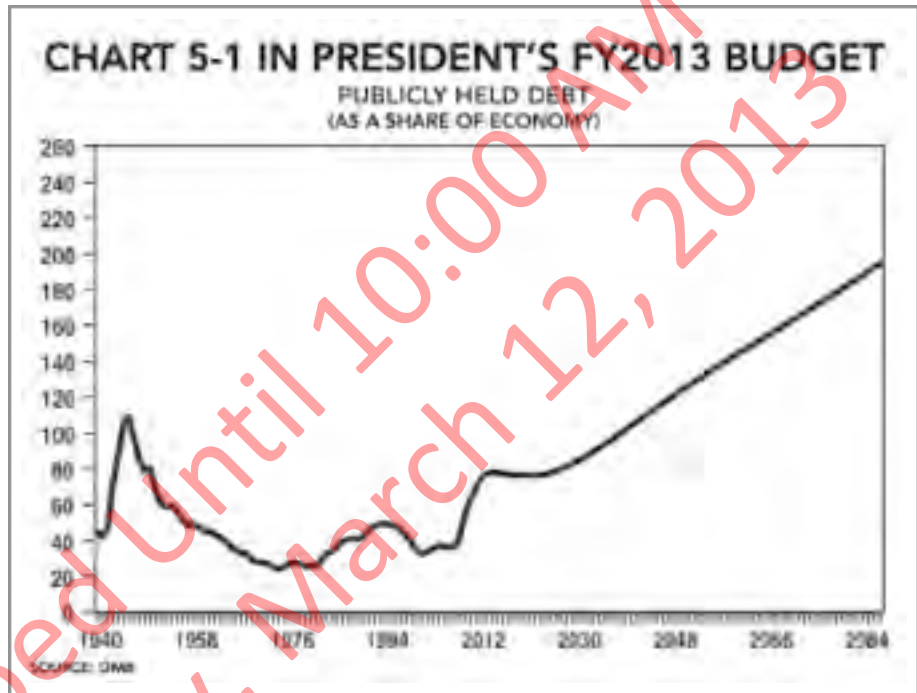
The positive economic feedback from a \$4 trillion deficit-reduction package would produce further dividends. In 2023 alone, it would reduce spending by \$26 billion, increase revenue by \$55 billion, and reduce debt held by the public by \$185 billion. The House Republican budget is projected to have a surplus of \$7 billion in 2023 without incorporating CBO's economic feedback. When the economic feedback is incorporated, the House Republican budget would have a 2023 surplus of \$89 billion. Over the ten-year window, the positive economic feedback would bring spending down an additional \$75 billion, increase revenue by \$112 billion, and reduce deficits by a cumulative \$186 billion. Further





analysis on the macroeconomic feedback from a \$4 trillion deficit-reduction package can be found below in Appendix II.

President Obama has yet to put forward a budget this year, despite his legal obligation to do so by the first Monday of February. Until the President takes a break from his perpetual campaign, we are left with last year's budget proposal as the definitive statement of his vision for the nation's future. Unlike this budget, the President's budget never balanced—and it never paid off our debt.

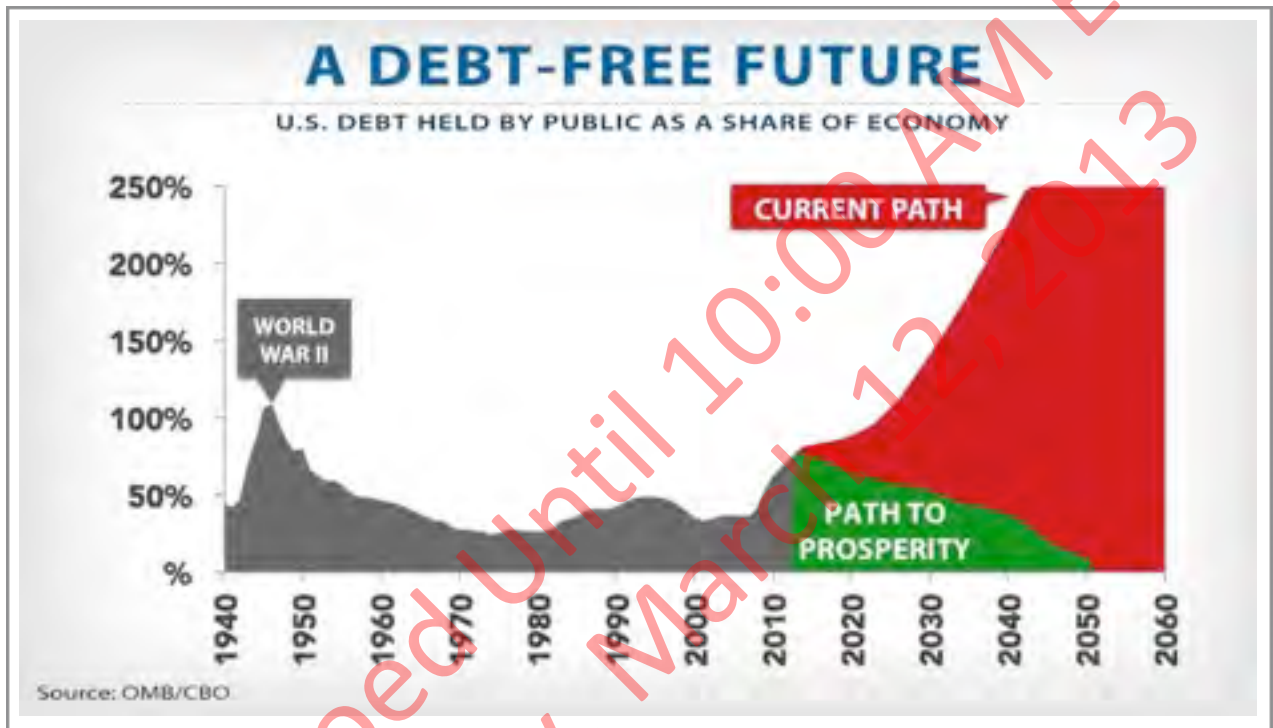


President Obama's most recent budget included a stunning admission on the debt trajectory in the years ahead. The President's budget states that under his preferred policies, the federal government's "fiscal position gradually deteriorates" and his latest budget projects a debt spiraling out of control (see chart 5-1 from his latest budget, reprinted here).<sup>63</sup>

This doesn't have to be our future. We can turn things around. The challenge may seem daunting. But we've done it before. After the Revolutionary War, our debt stood at the then-staggering sum of \$80 million—or 40 percent of our economy. The country suffered from rampant inflation and high interest rates. Political divisions ran deep. Yet we prevailed. Leaders from both sides—Alexander Hamilton of the Federalists and James Madison of the Democratic-Republicans—put aside their differences to forge a solution. Both parties worked together to pay down the debt. And by the mid-1830s, we had virtually eliminated it.

We also can take inspiration from a more recent episode in our history. In 1997, a Democratic president and a Republican Congress passed the Balanced Budget Act, which inaugurated four years of balanced budgets. This budget follows that model. It incorporates ideas from both parties to address the most pressing issue of the day: our national debt. In so doing, it aims not to reject responsibility—but to solve the issue once and for all.

<sup>63</sup> Office of Management and Budget. "Analytical Perspectives," [Budget of the U.S. Government](#). Fiscal Year 2013.



We can get our country back on track. But it will require leadership. Either our leaders can choose to ignore these problems—or it can choose, today, to begin the hard work of restoring our country.

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# **APPENDIX I: SUMMARY TABLES**

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## House Republican FY2014 Budget

(NOMINAL DOLLARS IN BILLIONS)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014-2023
<b>House Budget</b>											
Outlays	3,531	3,498	3,660	3,820	3,991	4,198	4,401	4,587	4,827	4,954	41,466
Revenue	3,003	3,373	3,591	3,765	3,937	4,101	4,279	4,496	4,734	4,961	40,241
Deficit(+)/Surplus(-)	528	125	69	54	54	97	122	91	93	-7	1,225
Debt Held by Public	12,850	13,070	13,226	13,362	13,485	13,648	13,837	13,993	14,154	14,211	
<b>As a Share of GDP</b>											10-Year Average
Outlays	21.2%	19.8%	19.5%	19.1%	19.1%	19.2%	19.3%	19.2%	19.4%	19.1%	19.5%
Revenue	18.0%	19.1%	19.1%	18.9%	18.8%	18.7%	18.7%	18.9%	19.0%	19.1%	18.8%
Deficit	3.2%	0.7%	0.4%	0.3%	0.3%	0.4%	0.5%	0.4%	0.4%	0.0%	0.6%
Debt Held by Public	77.2%	74.1%	70.4%	66.9%	64.4%	62.4%	60.5%	58.7%	56.9%	54.8%	

S-2

House Republican FY2014 Budget versus Current Policy

(NOMINAL DOLLARS IN BILLIONS)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014-2023
Outlays	-80	-253	-329	-384	-437	-486	-538	-613	-702	-811	-4,633
Revenue	0	0	0	0	0	0	0	0	0	0	0
Deficit	-80	-253	-329	-384	-437	-486	-538	-613	-702	-811	-4,633
Debt Held by Public	-80	-333	-663	-1,047	-1,484	-1,970	-2,508	-3,120	-3,822	-4,633	

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## House Republican FY2014 Budget by Major Category

(NOMINAL DOLLARS IN BILLIONS)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014-2023
Social Security	854	902	953	1,008	1,067	1,130	1,199	1,270	1,344	1,423	11,149
Medicare (Nat)	509	527	574	590	613	671	714	761	833	864	6,656
Medicaid & Other Health	321	295	303	315	325	329	347	354	372	387	3,349
President's Health Care Law	0	0	0	0	0	0	0	0	0	0	0
Other Mandatory	443	384	415	404	399	402	406	411	433	404	4,100
Discretionary (Base)	1,114	1,079	1,065	1,084	1,095	1,120	1,146	1,171	1,197	1,209	11,280
Global War on Terrorism	47	41	40	39	37	38	37	37	38	38	392
Net Interest	242	270	310	380	455	508	552	582	609	630	4,540
<b>Total Outlays</b>	<b>3,531</b>	<b>3,498</b>	<b>3,660</b>	<b>3,820</b>	<b>3,991</b>	<b>4,198</b>	<b>4,401</b>	<b>4,587</b>	<b>4,827</b>	<b>4,954</b>	<b>41,466</b>

S-4 House Republican FY2014 Budget versus Current Policy by Major Category

(NOMINAL DOLLARS IN BILLIONS)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014-2023
Social Security	0	0	0	0	0	0	0	0	0	0	0
Medicare (Net)	0	-2	-4	-6	-7	-9	-14	-18	-29	-39	-129
Medicaid & Other Health	0	-39	-48	-57	-66	-84	-93	-112	-120	-139	-756
President's Health Care Law	-36	-101	-150	-182	-197	-209	-218	-233	-248	-263	-1,837
Other Mandatory	-41	-92	-88	-93	-94	-89	-96	-105	-122	-140	-962
Discretionary (base)	-2	-18	-29	-20	-22	25	-25	-26	-34	-47	-249
Global War on Terrorism	0	0	0	0	0	0	0	0	0	0	0
Net Interest	-1	-1	-11	-26	-50	-69	-92	-119	-149	-183	-700
<b>Total Outlays</b>	<b>-80</b>	<b>-253</b>	<b>-329</b>	<b>-384</b>	<b>-437</b>	<b>-486</b>	<b>-538</b>	<b>-613</b>	<b>-702</b>	<b>-811</b>	<b>-4,633</b>

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**S-5 Cross-Walk from CBO February 2013 Baseline to Current Policy**

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014-2023
<b>CBO February Baseline Deficit(+)/Surplus(-)</b>	616	430	475	535	605	710	798	854	957	978	6,958
Revenue Changes (none)	0	0	0	0	0	0	0	0	0	0	0
Outlay Effect of Spending Adjustments	7	-52	-75	-91	-102	-110	-116	-121	-126	-130	-931
Debt Service	-0.1	-0.2	-2	-6	-12	-17	-22	-29	-36	-44	-169
<b>Total Current Policy Deficit(+)/Surplus(-)</b>	608	378	398	438	491	583	659	703	795	803	5,858
<b>CBO February Baseline Outlays</b>	3,618	3,803	4,067	4,300	4,542	4,811	5,078	5,350	5,691	5,939	47,199
Remove Emergency Spending not Subject to BCA Caps	-2	-9	-18	-26	-33	-38	-41	-43	-45	-47	-302
Global War on Terrorism Policy	-5	-42	-58	-65	-69	-73	-76	-78	-81	-83	-629
Subtotal of Spending Adjustments	-7	-52	-75	-91	-102	-110	-116	-121	-126	-130	-931
Debt Service	-0.1	-0.2	-2	-6	-12	-17	-22	-29	-36	-44	-169
<b>Total Current Policy Outlays</b>	3,611	3,751	3,990	4,204	4,428	4,684	4,939	5,199	5,529	5,765	46,099
<b>CBO February Baseline Revenue</b>	3,003	3,373	3,591	3,765	3,937	4,101	4,279	4,496	4,734	4,961	40,241
Revenue Changes (none)	0	0	0	0	0	0	0	0	0	0	0
<b>Total Current Policy Revenue</b>	3,003	3,373	3,591	3,765	3,937	4,101	4,279	4,496	4,734	4,961	40,241
<b>CBO February Baseline Debt Held by Public</b>	12,937	13,462	14,025	14,642	15,316	16,092	16,957	17,876	18,902	19,944	
Current Policy Impact on Debt	-7	-59	-136	-233	-347	-474	-613	-763	-926	-1,100	
<b>Total Current Policy Debt Held by Public</b>	12,930	13,403	13,888	14,409	14,969	15,618	16,344	17,113	17,977	18,844	

## S:5: CBO's Current-Law Baseline and a Current-Policy Baseline

To illustrate the impact of budget proposals, comparisons are made to a "baseline." The Congressional Budget Office develops a baseline that is frequently referred to as the "current law" baseline. The baseline is intended to show budget projections if current laws are followed.

Of course, many laws have expiration dates. Most notably, government agencies are funded by appropriations laws that usually expire at the end of each fiscal year. In constructing a ten-year baseline to reflect a one-year appropriations process, CBO takes the most recent enacted appropriation and assumes it is extended with an upward adjustment for inflation. In 2011, upon enactment of the Budget Control Act, discretionary spending caps were established, which are reflected in CBO's current-law baseline.

There are two categories of discretionary spending that are not initially subject to these caps: war funding and emergency spending. For these activities, CBO takes the most recent appropriated amount, adds inflation, and extends it for the entire budget window through 2023. Despite the drawdown of military operations in Afghanistan, CBO's baseline assumes war operations are funded at current levels and are adjusted upward for inflation. A similar result occurs with respect to emergency funding. Congress recently designated \$41 billion of the supplemental appropriation for Hurricane Sandy as an "emergency." In its baseline projections, CBO takes the \$41 billion spent this year and extends it for ten years with an adjustment upward for inflation.

The result is that baseline spending and deficits are higher than what will occur under current policy. This elevated baseline offers policymakers the temptation to "claim" roughly \$1 trillion of war and emergency savings without any actual change in current policy. Such a budget proposal does not, in reality, "save" taxpayers any money. The decision to not continue to spend money to meet an acknowledged temporary or one-time need is not a spending cut.

Relative to CBO's current-law baseline, the House Republican budget reduces spending and deficits by \$5.7 trillion. This figure overstates the actual deficit reduction as the baseline allows for claiming savings from the planned drawdown of operations in Afghanistan and by simply not repeating one-time emergency supplemental funding for Hurricane Sandy.

Table S-5 in the House Republican budget eliminates these distortions. It does so by adjusting the CBO current-law baseline to remove this elevated war spending to reflect current policy spending for FY 2014–2023. In the case of the emergency appropriations for Hurricane Sandy, this spending is entirely removed. This current-policy baseline provides a more accurate starting point to measure the deficit impact of budget proposals. The House Republican budget assumes war funding consistent with the President's proposed levels and assumes Congress does not continue to provide \$41 billion annually for the next ten years as a result of Hurricane Sandy.

Relative to this adjusted or "current policy" baseline, the policy reforms proposed in the House Republican budget reduce spending and deficits by \$4.6 trillion over ten years.

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**APPENDIX II: ECONOMIC BENEFITS  
OF DEFICIT REDUCTION**  
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## APPENDIX II: ECONOMIC BENEFITS OF DEFICIT REDUCTION

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Last month, the Congressional Budget Office released a study that illustrated the economic impact of both smaller and larger budget deficits compared to the current fiscal trajectory.<sup>64</sup> Under current law, debt levels as a share of the economy are poised to rise from just over 72 percent last year to 77 percent by the end of the ten-year budget window. Economists generally caution that government leverage in excess of about 60 percent of the economy is problematic, and a rising debt level is simply unsustainable for an extended period of time. A rising debt level is ultimately unsustainable because its growth exceeds that of the overall economy. As a result, debt-service costs absorb an increasing share of national income, and the country must borrow an increasing amount each year, likely in the face of gradually higher interest rates, to both fund its ongoing services and to make good on its previous debt commitments. Ultimately, this dynamic would lead to a decline in national saving and a “crowding out” of private investment, leading to a decline in economic output and a diminution of that country’s standard of living.

CBO’s study warns that the current debt trajectory “raises the risk of a fiscal crisis (in which the government would lose the ability to borrow money at affordable interest rates).” Looking ahead, CBO notes that “the aging of the population and rising health care costs will tend to push debt even higher in the following decades.”<sup>65</sup>

For these reasons, CBO finds that reducing budget deficits, thereby bending the curve on debt levels, is a net positive for economic growth. CBO finds a dichotomy, however, between the short-term and longer-term impacts of deficit reduction. For instance, CBO’s short-term economic models are driven mainly by demand-side factors. According to these short-term models, deficit reduction that lowers government spending leads to a temporary reduction in economic output due to the assumed reduction in consumption as a result of lower government transfers. These models assume government spending has a “fiscal multiplier” in excess of 1, meaning that its reduction leads to an outsized reduction in overall economic output. Of course, every dollar the government spends must be taxed or borrowed from the private sector.

Although CBO believes that deficit reduction may lead to lower economic growth over the short term, some economists offer a contrasting view. They argue that a country’s debt build-up can be so large that longer-term fiscal concerns essentially start to bleed into the present, affecting short-term economic activity. The extreme example is a sudden, full-blown debt crisis like the one that fiscally troubled countries in Europe have experienced. But there is also a less-noticeable, slowly evolving type of crisis that can grip a debt-burdened economy—the crisis of uncertainty and waning confidence in the will of policymakers to deal with the government’s unsustainable fiscal trajectory. Investors and businesses make decisions on a forward-looking basis. They know that today’s large debt levels are simply tomorrow’s tax hikes, interest-rate increases, or inflation—and they act accordingly. It is this

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<sup>64</sup> Congressional Budget Office. “Macroeconomic Effects of Alternative Budgetary Paths.” 5 February 2013.

<sup>65</sup> Ibid.

debt overhang, and the uncertainty it generates, that can weigh on growth, investment, and job creation.

For instance, Stanford economists John Cogan and John Taylor recently studied fiscal-consolidation strategies that use a so-called “Neo-Keynesian” economic model to take into account how consumers and businesses might react to a country’s future fiscal trajectory. For example, forward-looking consumers and businesses may expect future tax hikes, and plan accordingly, if a country continues to build up large amounts of debt that will ultimately need to be paid off. In this study, Cogan, Taylor, and their fellow authors find that “even in the short-run, the consolidation of government finances is found to boost economic activity in the private sector sufficiently to overcome the reduction in government spending.”<sup>66</sup>

Similarly, Taylor has argued that government needs to encourage private investment, rather than keep its own spending high, in order to grow jobs. He believes that vast uncertainty, linked to the possibility of higher future tax rates and interest rates, is having a chilling effect on private investment and therefore job creation. Reducing government spending now would “reduce the threats of higher taxes, higher interest rates and a fiscal crisis,” and would therefore provide an immediate stimulus to the economy.<sup>67</sup> Although Federal Reserve Chairman Ben Bernanke has not said categorically that a deficit-reduction package would be a net positive for the economy in the short run, he does make the point that the announcement of such a plan would have near-term benefits. For instance, Bernanke has said that putting in place a credible plan to reduce future deficits “would not only enhance economic performance in the long run, but could also yield near-term benefits by leading to lower long-term interest rates and increased consumer and business confidence.”<sup>68</sup>

Irrespective of the debate over the short-term economic impact of deficit reduction, there is widespread consensus that long-term fiscal sustainability produces considerable economic benefits. In CBO’s analysis, a \$4 trillion deficit-reduction package permanently increases economic output by 1.7 percent after 2017. The logic is that deficit reduction creates long-term economic benefits because it increases the pool of national savings and boosts investment, thereby raising economic growth and job creation. These benefits are both significant and lasting, in contrast to CBO’s assumed temporary reduction in output over the short term.

The greater economic output that stems from a large deficit-reduction package would have a sizeable impact on the federal budget. For instance, higher output would lead to greater revenues through the increase in taxable incomes. Lower interest rates, and a reduction in the stock of debt, would lead to lower government spending on net-interest expenses. According to CBO, this dynamic would reduce budget deficits, or increase budget surpluses, by roughly \$89 billion in 2023. Over the decade, deficits would be reduced by roughly \$186 billion.

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<sup>66</sup> Cogan, John, and John Taylor, et al. “Fiscal Consolidation Strategy.” Stanford University. 14 June 2012.

<sup>67</sup> Becker, Gary, George Schultz, and John Taylor. “Time for a Budget Game-Changer.” *Wall Street Journal*. 4 April 2011.

<sup>68</sup> Bernanke, Benjamin. “Fiscal Accountability.” 14 June 2011.

**FY14 House GOP Budget and Macro-Economic Feedback Effects Resulting from Deficit Reduction**  
(billions of dollars)

	<b>2023</b>	<b>2023</b>	<b>2023</b>	<b>2014-2023</b>	<b>2014-2023</b>	<b>2014-2023</b>
	Budget without Feedback	Impact of Economic Feedback	Budget with Feedback	Budget without Feedback	Impact of Economic Feedback	Budget with Feedback
Outlays	4,954	-26	4,928	41,466	-75	41,391
Revenue	4,961	55	5,016	40,241	112	40,352
Deficit(+)/ Surplus(-)	-7	-82	-89	1,225	-186	1,040
Debt Held by Public	14,211	-185	14,026	n.a.	n.a.	n.a.

Note: Feedback effects are based on CBO's report on *Macroeconomic Effects of Alternative Budgetary Paths* using its illustrative path of a ten-year, \$4 trillion reduction in primary deficits. The FY14 House Budget Resolution achieves deficit reduction well in excess of CBO's illustrative path.

Details may not sum to totals due to rounding.

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## **APPENDIX III: RECONCILIATION**

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On Tuesday, March 12, 2013

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## APPENDIX III: RECONCILIATION

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In 2012, the House passed a budget designed to provide a fast-track procedure to replace the arbitrary sequester cuts with sensible reforms of mandatory spending programs. Unfortunately, the President threatened to veto the resulting legislation, and the Senate did nothing while the sequester approached. In the final analysis, the President's opposition to sensible spending reforms and the Senate's failure to act resulted in the March 1, 2013 sequester of \$85.3 billion.

This budget gives reconciliation instructions to eight committees to produce legislation each reducing the deficit by at least \$1 billion. These instructions represent a placeholder or starting point for negotiations with the Senate. As was demonstrated last year, without engagement from the Senate, the reconciliation process does not produce meaningful results. Absent a conference agreement, reconciliation's special procedures in the Senate cannot be implemented. While reconciliation provides an expedited process to implement the budget resolution's assumptions, it is not the only avenue. The budget proposes to implement all \$4.6 trillion in deficit reduction through the regular legislative process if reconciliation is not ultimately used.

### *How reconciliation works*

The 1974 Budget Act provides Congress with a special procedure to give expedited consideration to bills enacting the spending, revenue, and debt policies contained in the budget resolution. To trigger these expedited procedures, the House and Senate must reach agreement and include in the budget-resolution conference report reconciliation instructions calling on specific committees to achieve specified amounts of savings in programs within their jurisdictions. The committees choose which programs to address and which policies to adopt in order to comply with the instructions.